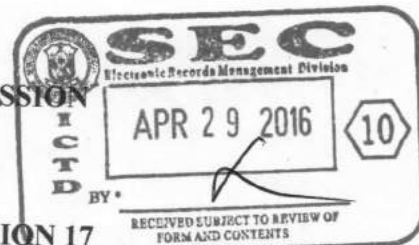


SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the fiscal year ended December 31, 2015
2. SEC Identification Number A1997-9587    3. BIR Tax Identification No. 005-338-421-000
4. Exact name of issuer as specified in its charter Citystate Savings Bank, Inc.
5. Makati City, Metro Manila, Philippines    6. (SEC Use Only)  
Province, Country or other jurisdiction of    Industry Classification Code:  
incorporation or organization
7. Citystate Centre Building, 709 Shaw Boulevard, Pasig City    1600  
Address of principal office    Postal Code
8. (632) 470-3333  
Issuer's telephone number, including area code
9. NA  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	72,764,998

11. Are any or all of these securities listed on a Stock Exchange.

Yes []    No [  ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Check whether the issuer:

- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [  ]                      No [  ]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [  ]                      No [  ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.

The aggregate market value of the voting stock held by non-affiliates of the registrant amounted to P131,686,850 representing 13,168,685 common shares valued at the current market price of P10.00 per share.

Non-affiliates are assumed to be individuals who directly invested with the registrant.

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [  ]                      No [  ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

- (a) Any annual report to security holders; Part II, Item 7. Financial Statements.

## **PART I - BUSINESS AND GENERAL INFORMATION**

### **ITEM 1. BUSINESS**

Citystate Savings Bank, Inc. (CSBI) was registered with the SEC on May 20, 1997 with authorized capital stock of P1.0 billion divided into 100,000,000 common shares at a par value of P10.00 per share. The Monetary Board of the BSP granted the bank a license to operate as a thrift bank on August 7, 1997. Thereafter, CSBI began its banking operation on August 8, 1997.

Aside from the traditional products and services offered by a thrift bank, CSBI offers a wide range of banking services, such as but not limited to innovative deposit products and services, cash management, onsite/offsite ATM facilities, corporate and retail banking, and treasury services. These products and services are marketed bank wide through its thirty (30) branches/offices established mostly in Metro Manila and some in provincial branches. The bank caters to the needs of corporate, middle market and retail clients.

In its credit and financing business, the bank provides a venue for consumer/personal loans by accepting jewelry for instant cash loans, aside from its own lending activities of servicing commercial loans, real estate and development loans, auto loan financing, salary loans, agricultural loans and a host of other financial services.

At present, the bank's distribution network for its products and services is carried out through its network of thirty (30) branches/offices comprised of twenty one (21) in Metro Manila, three (3) in Bulacan, one (1) in Dagupan, one (1) in Batangas, one (1) in Urdaneta, Pangasinan, one (1) in Cebu City, one (1) in Puerto Princesa City, Palawan and one (1) in Sta. Rosa City, Laguna . These branches are each manned by a Business Manager as marketing head and supported by branch operations officer and staff. The bank also has a total of thirty nine (39) ATMs installed on sites and off sites and fully operational twenty-four (24) hours a day.

In the development of new products and services, the bank relied mainly with internal talents from its marketing department and no specific amount was spent to conceptualize customer-centric products and services. The bank also does not need any government approval for the launching of its product and services.

For marketing purposes, the bank can tap the customers and employees of its related parties. Loans granted and deposit accounts of related parties maintained in the bank are treated uniformly like any other client of the bank. Loans granted to its directors, officers, stockholders or related interests (DOSRI) are subject to Bangko Sentral ng Pilipinas (BSP) examination and reportorial requirements. More information on the related party transactions are found in ITEM 12 of this report.

The bank was officially included in the list of Government Securities Eligible Dealers (GSEDs) and was allowed to participate in the electronic auction of government securities through the Automated Debt Auction Processing System (ADAPS).

Pursuant to further enhancing the bank's delivery system, the Bangko Sentral ng Pilipinas (BSP) authorized CSBI to operate an FCDU and to perform trust and other fiduciary business on November 08, 2006.

For the ensuing years, CSBI plans to expand its branch-banking network. It plans to open more branches in Metro Manila and in the provinces via branches acquisition or establishment of new branches in key cities where the moratorium on branching has been lifted such as it continues to develop and offer innovative products and services.

In terms of manpower complement, CSBI employs three hundred twelve (312) personnel as of December 31, 2015 comprising of eleven (11) senior officers, one hundred fifteen (115) junior officers and one hundred eighty six (186) rank & file employees. CSBI expects to hire additional manpower complement to handle the growing business of the Bank in the next 12 months. At present, there is no existing labor union in the Bank and there is no collective bargaining agreement (CBA) between Management and employees as both parties maintain very cordial relationships since the start of the bank operation. Therefore, the Bank is not at all threatened by any labor dispute with its employees.

For its supplemental benefits to its employees, CSBI grants to all regular and probationary employees a Christmas bonus on top of the 13<sup>th</sup> month pay mandated by the government. All regular employees as of December 31 of the previous year are granted an annual medicine and optical allowance of Php2, 500.00 paid every January of each year. Furthermore, all employees are covered by a hospitalization insurance plan under the Group Term Insurance Policy of Fortune Medicare and life insurance under the Group Life Insurance Program of Fortune Life Insurance. The bank also offers in-house training for officers and staff; performance-based merit increases; and job promotions.

#### PATENTS, TRADEMARKS LICENSES, FRANCHISES, CONCESSIONS, ROYALTY AGREEMENT OR LABOR CONTRACTS INCLUDING DURATION

None

#### RISK MANAGEMENT

Risk is an integral part of the Bank's business activities and sound risk management is essential in attaining its mission and vision. Comprehensive policies and procedures were developed and implemented to identify, assess, mitigate, monitor, and manage the various types of risk involved the Bank's activities. These risks include credit, market, interest rate, liquidity, operations, legal, and compliance.

The Bank is committed to ensure high level of risk awareness throughout the organization to maximize profit and minimize unexpected losses.

## RISK MANAGEMENT SYSTEM AND STRUCTURE

The Bank has established control mechanisms at various levels within the firm to ensure high standards of risk management. Department heads have the primary responsibility for managing risks. They regularly review activities and material changes to ensure that significant risks are identified, monitored, and managed throughout the firm and that appropriate control procedures are in place. To accomplish this, the Bank has established a risk management process, which includes:

- regular review of the entire risk management process by the Audit Committee of the Board of Directors
- clearly defined risk management policies and procedures supported by the most appropriate and analytic tools available
- constant communication and coordination between departments while maintaining strict segregation of responsibilities, controls, and oversight
- clearly articulated risk tolerance levels as defined by the Risk Oversight Committee that are regularly reviewed to ensure that risk taking activities are consistent with the Bank's business strategy and capital structure

The Management Committee, composed of the Bank's senior officers, establishes the overall risk management policies and reviews the company's performance relative to these policies. The Bank has established a Risk Oversight Committee to assist in monitoring and reviewing the Bank's risk management practices. The Risk Oversight Committee was created to manage and monitor specific risks, review the risk monitoring and risk management policies and procedures relating to the Bank's credit risk profile, bank practices, pricing of consumer and commercial loans and reserve adequacy, legal enforceability and operational and systems risks. In addition, the Internal Audit Department which also reports to the Board of Directors, periodically examines and evaluates the Bank's operation and control environment.

While no risk management system can ever be absolutely complete, the goal of the Risk Oversight Committee is to make certain that risk-related losses occur within acceptable, predefined levels.

## INFORMATION ON RISK EXPOSURES

1. Credit Risk - Credit risk is the largest single risk that the bank faces. This occurs when an obligor fails to meet the terms of any contract with the bank or otherwise fails to perform as agreed. Credit policies and practices of the bank are generally sound. Credit ratios all fall within manageable level.
2. Market Risk – Market risk is the possibility of loss due to changes in market prices and rates, the correlations among them and their levels of volatility. It involves liquidity and price risk. Both risks are managed thru a common structure and process but use separate conceptual and measurement frameworks that are compatible with each other. The bank applies various form of Value-at-Risk (VAR) methodology to the trading book and balance sheet.

3. Liquidity Risk – Liquidity risk refers to the risk of not having sufficient cash and borrowing capacity to meet depositors’ withdrawals, net loan demand and other cash requirements. The bank has maintained adequate reserve position and has been a consistent interbank lender. It has not resorted to external borrowings and has a balanced source of funding from deposits and capital.
4. Operational Risk – Operational risk refers to the risk to earnings or capitals arising from problems with service or product delivery and/or breakdowns in policies and controls for ensuring the proper functioning of people, contracts, systems, and facilities. The bank has created and maintained an operating environment that ensures and protects the integrity of the company’s assets, transactions, records and data.
5. Legal Risk – Legal risk occurs when the bank does not comply with all applicable laws and regulations and therefore, exposes the bank to possible civil, criminal and/or administrative sanctions as well as unfavorable publicity and the risk that a counterparty’s performance obligations will be unenforceable. The bank has its own legal department handling cases filed by/against it. As represented by management, pending legal cases are limited to collection cases.
6. Compliance Risk – Compliance risk refers to risk to earnings or capital arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The bank has a separate Compliance Department that handles all compliance issues with BSP, SEC, and PSE.

## ITEM 2. DESCRIPTION OF PROPERTY

The principal office of the bank is located at the 2<sup>nd</sup> floor of the Citystate Centre Building, 709 Shaw Boulevard, Pasig City, Metro Manila. The bank owns approximately a total of 1,188 square meters of the office space in the said building which comprised a total of nine (9) condominium units. The condominium units owned by the bank are unit numbers 101 to 102 at the first floor, and unit numbers 201-202 and 208 to 212 at the second floor. Ownership in and to the condominium units of the bank is represented under Condominium Certificate of Title (CCT) numbers PT-34879 to 87. There is no existing mortgage or lien on the condominium units aforementioned.

The bank leases the office spaces of its eleven (11) branches from its affiliates, namely, ALC Realty Development Corporation, Filipinas Pawnshop, Inc., Citystate Tower Hotel, Inc., ALC Baliwag Cinema, Aliw Cinema Complex, Inc., AMB. ALC Holdings & Management Corporation, Fortune Life Insurance Co., Inc., and Eternal Gardens Memorial Corporation-Batangas. By agreement, all lease payments to said affiliates were waived for the years 1999, 2000, 2001, 2002 and 2003. The existing lease contracts of the bank are as follows:

For its **Antipolo Branch**, the bank leases the office space from **Francisco Alarcon & Vivencio L. Espiritu** for a period of five (5) years, commencing on July 14, 2012 and ending on June 13, 2017

<i>TERM</i>	<i>Monthly Rental</i>
First Year	60,000.00
Second Year	60,000.00
Third Year	64,500.00
Fourth Year	69,337.50
Fifth Year	74,537.81

For its **Baclaran Branch**, the bank leases the office space from **Protacio Medical Services Inc.** for a period of one (1) year, commencing on January 1, 2016 and ending on December 31, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	99,220.00

For its **Baliuag Branch**, the bank leases the office space from **ALC Baliwag Cinema & Shopping Complex Inc.** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	124,395.89

For its **Binondo Branch**, the bank leases the office space from **Far East Asia Development Corporation** for a period of five (5) years, commencing on January 1, 2015 and ending on January 1, 2020.

<i>TERM</i>	<i>Monthly Rental</i>
First Year	76,600.00
Second Year	80,430.00
Third Year	84,451.50
Fourth Year	88,674.08
Fifth Year	93,107.78

For its **Blumentritt Branch**, the bank leases the office space from **Mrs. Ofelia E. Duque** for a period of one (1) year, commencing on January 1, 2015 and ending on December 31, 2015.

<i>TERM</i>	<i>Monthly Rental</i>
One year	60,000.00

For its **Caloocan Branch**, the bank leases the office space from **Stronghold Four Leasing Corporation** for a period of ten (10) years, commencing on January 01, 2015 and ending on December 31, 2024.

<i>TERM</i>	<i>Monthly Rental</i>
First Year	128,400.00
Second Year	128,400.00
Third Year	134,820.00
Fourth Year	141,561.00

Fifth Year	148,639.05
Sixth Year	156,071.00
Seventh Year	163,874.55
Eight Year	172,068.28
Ninth Year	180,671.69
Tenth Year	189,705.28

For its **Chino Roces Branch**, the bank leases the office space from **ALC Realty Development Corporation** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	342,374.00

For its **Dagupan Branch**, the bank leases the office space from **Amb. ALC Holdings & Management Corporation** for a period of twenty (20) years, commencing on May 15, 2013 to May 14, 2033

<i>TERM</i>	<i>Monthly Rental</i>
First Year	49,732.00
Second Year	54,705.20
Third Year	60,175.72
Fourth Year	66,193.29
Fifth Year	72,812.62
Sixth Year	80,093.88
Seventh Year	88,103.27
Eight Year	96,913.60
Ninth Year	106,605.00
Tenth Year	117,265.45

For its **Greenhills Branch**, the bank leases the office space from **MEDECOR Philippines Inc.** for a period of one (1) year, commencing on July 19, 2015 and ending on July 18, 2016

<i>TERM</i>	<i>Monthly Rental</i>
One year	132,001.43

For its **Guadalupe Branch**, the bank leases the office space from **Filipinas Pawnshop Inc.** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	72,041.20

For its **Katipunan Branch**, the bank leases the office space from **MANSI Realty Inc.,** for a period of one (1) year, commencing on August 1, 2015 and ending on July 31, 2016

<i>TERM</i>	<i>Monthly Rental</i>
-------------	-----------------------



One Year 150,582.69

For its **Las Pinas Branch**, the bank leases the office space from **Rufo G. Villafuerte and Anita Alejo Villafuerte for** a period of ten (10) years, commencing on April 02, 2007 and ending on April 01, 2017.

<i>TERM</i>	<i>Monthly Rental</i>
First Year	85,616.00
Second Year	85,616.00
Third Year	85,616.00
Fourth Year	89,896.80
Fifth Year	94,391.64
Sixth Year	99,111.22
Seventh Year	104,066.78
Eight Year	109,270.12
Ninth Year	114,733.63
Tenth Year	120,470.31

For its **Mabini Branch**, the bank leases the office space from **Citystate Tower Hotel** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	112,412.79

For its **Meycauayan Branch**, the bank leases the office space from **ALC Aliw Cinema Complex Inc.** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	142,085.22

For its **Muntinlupa Branch**, the bank leases the office space from **Jaysons Realty & Development Corp.** for a period of one (1) year, commencing on November 15, 2014 and ending on November 14, 2015.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	68,694.00

For its **New Panaderos Branch**, the bank leases the office space from **ALC Realty Development Corporation** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	129,400.26

For its **Paco Branch**, the bank leases the office space from **Filipinas Pawnshop Inc.** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15,

2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	156,921.42

For its **Pasay Taft Branch**, the bank leases the office space from **ALC Realty Development Corporation** for a period of one (1) year, commencing on January 16, 2015 and ending on January 15, 2016.

<i>TERM</i>	<i>Monthly Rental</i>
One Year	144,568.13

For its **Perea Branch**, the bank leases the office space from **Gervasia Enterprises & Realty Corp.** for a period of five (5) years, commencing on January 15, 2014 and ending on January 14, 2019.

<i>TERM</i>	<i>Monthly Rental</i>
First Year	101,000.00
Second Year	106,050.00
Third Year	116,655.00
Fourth Year	128,320.50
Fifth Year	141,152.55

For its **Puerto Princesa Branch**, the bank leases the office space from **Fortune Life Insurance, Co., Inc.** for a period of five (5) years, commencing on September 01, 2015 and ending on August 31, 2020

<i>TERM</i>	<i>Monthly Rental</i>
First Year	68,700.00
Second Year	75,570.00
Third Year	83,127.00
Fourth Year	91,439.70
Fifth Year	100,583.67

For its **Sta. Lucia Mall Branch**, the bank leases the office space from **Sta. Lucia East Commercial Corp.** for a period of three (3) years, commencing on October 01, 2014 and ending on September 30, 2017

<i>TERM</i>	<i>Monthly Rental</i>
First Year	133,765.50
Second Year	147,142.05
Third Year	161,856.25

For its **Taguig Branch**, the bank leases the office space from **Bonnie E. Garcia and Anicia V. Garcia** for a period of ten (10) years, commencing on July 7, 2011 and ending on July 6, 2021.

<i>TERM</i>	<i>Monthly Rental</i>
First Year	40,000.00
Second Year	40,000.00
Third Year	44,000.00
Fourth Year	48,400.00
Fifth Year	53,240.00
Sixth Year	58,564.00
Seventh Year	64,420.00
Eight Year	70,862.00
Ninth Year	85,949.00
Tenth Year	94,544.00

For its **Sta. Rosa Branch**, the bank leases the office space from **Eternal Gardens Memorial Corporation-Batangas** for a period of five (25) years, commencing on August 04, 2015 and ending on August 05, 2040

<i>TERM</i>	<i>Monthly Rental</i>
First Year	42,800.00
Second Year	44,940.00
Third Year	47,187.00
Fourth Year	49,546.35
Fifth Year	52,023.67
Sixth Year	54,624.85
Seventh Year	57,356.09
Eight Year	60,223.90
Ninth Year	63,235.09
Tenth Year	66,396.85

The bank has no intention of acquiring any property in the next twelve (12) months.

### ITEM 3. LEGAL PROCEEDINGS

Other than ordinary and routine litigation matters that are incidental to the usual and normal course of its business, the bank is not involved in any litigation that may materially affect its regular operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

This requirement is not applicable as there was no issue on any matter submitted to a vote of security holders during the whole period covered by this report.

## **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

### **ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

1. Market Information:

- a. The registrant's shares are traded in the Philippine Stock Exchange, Inc. (PSE) after its listing on November 28, 2001. The high and low market prices in 2014 & 2015 are as follows:

<u>QUARTERLY</u>	<u>HIGH</u>		<u>LOW</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
First Quarter	14.80	11.10	9.42	9.03
Second Quarter	12.70	10.20	8.70	9.20
Third Quarter	10.58	10.10	9.32	9.22
Fourth Quarter	14.00	10.10	9.88	8.48

For the interim period in 2016, the following are the high and low market prices of CSBI shares of stocks:

<u>MONTH</u>	<u>HIGH</u>	<u>LOW</u>
January 2016	10.10	9.50
February 2016	10.10	9.50
March 2016	10.10	9.50

- b. Dividends Declared for the Last Five (5) years:

- In 2001, 2002, 2003, 2004 and 2005 cash dividends amounting to P330,000.00, P660,000.00, P882,000.00, P882,000.00 and another P882,000.00 respectively were declared, approved by BSP and paid by the bank.
- In 2006, a 10% stock dividend equivalent to 6,614,998 shares and cash dividend amounting to P1,984,520.00 were declared, approved by BSP and paid by the bank.
- In 2007, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.
- In 2008, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.
- In 2009, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.
- All cash dividends declarations are subject to Bangko Sentral ng Pilipinas approval.

As of the date of March 31, 2016 the stocks are trading at P10.00 per share.

2a.  Holders (before PSE listing)

On March 7, 2001, the bank's Board of Directors and stockholders approved the application of the bank for the initial public offering of its shares of stock with the PSE. The bank's application for listing of its common stocks was approved by the BSP and PSE, on July 16, 2001 and November 14, 2001, respectively. The application is for the initial listing of 44,100,000 common shares, with par value of P10 per share, of which 11,100,000 common shares were primary offering at an offer price range of P10.25 to P11.55 per share. Subsequently, on November 28, 2001, the bank received the certificate of permit to offer securities for sale from SEC consisting of 11,100,000 common shares with par value of P10 per share at an offer price of P11.55 per share.

Before the PSE listing, the total paid up capital of the bank is P330, 000,000.00, with a total of 33,000,000 Shares issued and outstanding. The shareholders of the bank, and their percentage ownership relative to the total issued and outstanding capital stock of the Bank are represented in the following table:

**Top 20 Stockholders**

Shareholder	Number of Shares Owned	Percent to Total	Nationality
Estate of the late Amb. Antonio L. Cabangon Chua	7,500,000	22.73%	Filipino
D. Alfred A. Cabangon	5,000,000	15.15%	Filipino
Eternal Plans, Inc.	5,000,000	15.15%	Filipino
ALC Fortune Corporation	4,549,996	13.79%	Filipino
Fortune Guarantee & Insurance Corp.	3,500,000	10.61%	Filipino
Newstate Investment Pte. Ltd.	2,999,997	9.09%	Singaporean
Fortune Life Insurance Co., Inc.	2,400,000	7.27%	Filipino
Alfonso G. Siy	1,000,000	3.03%	Filipino
Joaquin T. Venus, Jr.	500,000	1.52%	Filipino
Feorelio M. Bote	250,000	0.76%	Filipino
Armando C. Trinidad	200,000	0.61%	Filipino
Vicente M. Santiago, Jr.	100,000	0.30%	Filipino
Godofredo C. Uy-Tioco	1	0.00%	Filipino
J. Wilfredo A. Cabangon	1	0.00%	Filipino
D. Arnold A. Cabangon	1	0.00%	Filipino
Benjamin V. Ramos	1	0.00%	Filipino
Leow Siak Fah	1	0.00%	Malaysian
Leow Tze Wen	1	0.00%	Singaporean
Anthony Tan	1	0.00%	Singaporean
<b>Total</b>	<b>33,000,000</b>	<b>100.00%</b>	

Shares of stock owned by Eternal Plans Inc., ALC Fortune Corporation, Fortune

Guarantee & Insurance Corp., Newstate Investment PTE. LTD., and Fortune Life Insurance Co., Inc. were represented and voted for by the late Ambassador Antonio L. Cabangon-Chua, Benjamin V. Ramos and J. Wilfredo A. Cabangon, Leow Siak Fah, and D. Arnold A. Cabangon, respectively.

In compliance with the PSE's Rules and Regulations, all existing stockholders of the bank have voluntarily agreed not to sell or otherwise dispose of their shareholdings within the period of two (2) years from the date of listing of Bank's Shares.

2b.  Holders (after PSE listing)

After the PSE listing, the offered shares of 11,100,000 common shares were all subscribed by about 560 investors.

As of December 31, 2015, the Bank has fifty five (55) shareholders on record and the top twenty (20) shareholders are as follows:

**Top 20 Stockholders**

<u>Shareholder</u>	<u>No. of Shares Owned</u>	<u>Percent to Total</u>	<u>Nationality</u>
1. Estate of the late Amb. Antonio L. Cabangon-Chua	14,206,114	19.52328%	Filipino
2. D. Alfred A. Cabangon	8,283,330	11.38367%	Filipino
3. Fortune Life Insurance, Co., Inc.	7,499,250	10.30612%	Filipino
4. Fortune General Insurance Corporation	5,484,000	7.53659%	Filipino
5. Top Ventures Investments & Management	4,902,594	6.73757%	Filipino
6. Feorelio Bote	4,302,500	5.91287%	Filipino
7. Ronaldo Zamora	3,521,000	4.83886%	Filipino
8. Angelita Jose	3,100,074	4.26039%	Filipino
9. Gencars-Batangas, Inc.	2,846,250	3.91156%	Filipino
10. Eternal Plans, Inc.	2,641,700	3.63045%	Filipino
11. D. Edgard A. Cabangon	2,143,350	2.94557%	Filipino
12. D. Antoinette Cabangon-Jacinto	1,650,000	2.26757%	Filipino
13. Alfonso G. Siy	1,650,000	2.26757%	Filipino
14. Eternal Plans, Inc. Life Trust Fund	1,118,643	1.53733%	Filipino
15. Eternal Plans, Inc. Pension Trust Fund	905,400	1.23740%	Filipino
16. Eternal Plans, Inc. Education Trust Fund	771,950	1.06088%	Filipino
17. Gencars-San Pablo, Inc.	726,000	0.99773%	Filipino
18. Aliw Broadcasting	717,300	0.98577%	Filipino

Corporation			
19.J. Wilfredo A. Cabangon In Trust For: William Matthew M. Cabangon	714,450	0.98186%	Filipino
20.J. Wilfredo A. Cabangon In Trust For: Michael Wesley M. Cabangon	714,450	0.98186%	Filipino
<b>TOTAL</b>	<b><u>67,898,355</u></b>	<b><u>93.31%</u></b>	

### 3. Dividends

CSBI is authorized to distribute dividends out of its surplus profit, in cash, properties of the Bank, shares of stock, and/or securities of other companies belonging to the Bank subject to certain BSP rules and regulations. In 1999, the Bank declared cash dividends amounting to P594, 750.00 to its shareholders on record as of April 27, 1999. The said dividend declaration was approved by the BSP on February 24, 2000 and was remitted by the Bank to its shareholders on April 11, 2001. The ability to pay dividends, however, will be dependent on the Bank's retained earnings and financial condition. On November 29, 2001, the Bank's board of directors approved the declaration of cash dividends equivalent to one-tenth of one percent of the par value of each issued and outstanding share as of December 31, 2000 or a total of P330, 000.00. Subsequently, on August 27, 2002, the Board of Directors approved the additional declaration of cash dividends equivalent to 2/10 of 1% of the par value of each issued and outstanding share as of December 31, 2001 or a total of P660, 000.00.

On December 17, 2003, the bank's Board of Directors approved the declaration of cash dividends equivalent to P882, 000.00 for stockholders of record 30 days from the receipt of the approval of the BSP of such declaration. Subsequently, on February 13, 2004, the bank received the BSP's approval on the cash dividend declaration. The total cash dividends declared was already paid as of December 31, 2004.

On May 25, 2004 the bank's Board of Directors approved the declaration of cash dividends amounting to P882, 000.00 to stockholders as of record date July 21, 2004. BSP approved the cash dividend declaration on June 18, 2004. As of December 31, 2004, the bank already paid P804, 437.00 of the total cash dividend declared.

On June 28, 2005 the bank's Board of Directors approved the declaration of cash dividends amounting to P882, 000.00 to stockholders as of record date September 10, 2005. BSP approved the cash dividend declaration on August 11, 2005. The total cash dividends declared was already paid as of December 31, 2005.

On September 14, 2006, the bank's Board of Directors approved the declaration of cash dividends and 10% stock dividends amounting to P1,984,520 and P66,149,980, respectively, to stockholders of record, thirty (30) days from the receipt of the

approval of BSP of such dividend declaration. BSP approved the dividend declaration on October 25, 2006 and was paid on December 20, 2006.

On May 29, 2007, the Board of Directors of CSB has approved the declaration of cash dividends amounting to 3/10 of 1% of the par value per share or Php 0.03 per share for stockholders of record, thirty (30) days from receipt of the approval by the Bangko Sentral ng Pilipinas of such dividend declaration. BSP approved the dividend declaration on August 21, 2007 and paid the total amount of P2, 182,950 on October 15, 2007.

On May 27, 2008, the Board of Directors of CSB has approved the declaration of cash dividends amounting to 3/10 of 1% of the par value per share or Php 0.03 per share for stockholders of record, thirty (30) days from receipt of the approval by the Bangko Sentral ng Pilipinas of such dividend declaration. BSP approved the dividend declaration on September 17, 2008 and paid the total amount of P2, 182,950 on November 6, 2008.

On May 26, 2009, the Board of Directors of CSB has approved the declaration of cash dividends amounting to 3/10 of 1% of the par value per share or Php 0.03 per share for stockholders of record, thirty (30) days from receipt of the approval by the Bangko Sentral ng Pilipinas of such dividend declaration. BSP approved the dividend declaration on August 4, 2010 and paid the total amount of P2, 182,950 on September 23, 2010.

#### 4. Recent Sales of Unregistered Securities

The Bank has not sold any unregistered securities for the past 3 years and therefore it has nothing to disclose under this Section of this report.

## ITEM 6. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### PAST PERFORMANCE

The following management's discussion and analysis of past performance should be read in conjunction with the audited financial statements attached as Annex I of this report.



## FINANCIAL HIGHLIGHTS

<b>Key Operating and Financial Indicators</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Number of Branches / Cash Unit	27	28	30
Number of Employee	324	326	312
*****	-	-	-
Cash	127,556	152,247	99,155
Due from BSP and Other Banks	602,896	1,258,401	1,329,269
Available-For-Sale-Securities	95,249	87,226	424,195
Loans and Receivables	1,981,009	2,130,816	2,496,399
Total Resources	3,510,131	4,192,119	4,871,268
Deposit Liabilities	2,679,598	3,396,810	4,143,577
Total Liabilities	2,749,602	3,500,990	4,261,791
Capital Funds	760,530	691,128	609,477
*****	-	-	-
Net Interest Income	224,819	191,882	161,732
Fee-Based and Other Income	67,495	62,324	42,353
Net Income	329	-71,043	-86,654
*****	-	-	-
Earnings per Share**	0.00	-0.98	-1.19
Book Value per Share*	10.45	9.50	8.38

(Amounts presented are in P'000, except per share figure)

\*Based on Shares outstanding as of year-end

\*\*Annualized Earnings per Share

### Key Performance Indicators

The Bank monitors its performance with the other players in the banking industry in terms of the following indicators:

<b>Key Performance Indicators</b>	<b>CSBI December 2015</b>	<b>INDUSTRY September 2015</b>
<u>Capital Adequacy</u>		
Capital to Risk Ratio	19.30%	16.53%
<u>Asset Quality</u>		
Non-performing Loan (NPL) Ratio	2.79%	4.56%
Non-Performing Loan (NPL) Cover	56.08%	72.24%
<u>Liquidity</u>		
Loans to Deposit	61.15%	87.13%
<u>Profitability</u>		
Return on Average Equity	-14.22%	10.58%
Net Interest Margin	3.78%	5.43%
<u>Cost Efficiency</u>		
Cost to Income	146.16%	65.41%

In terms of stability, the bank continues to enjoy a higher Capital Adequacy Ratio (CAR) of 19.30% versus the industry ratio of 16.53%. The Bank's NPL ratio of 2.79% is lower compared with the industry's 4.56%. Allowance for probable losses over Non-performing loans is 56.08% versus the industry's 72.24% as it continues to be highly selective in its lending operation and improve on loan collection.

The Bank's loan to deposit ratio of 61.15% is lower compared with the thrift banking industry's 87.13%.

In terms of profitability, the bank is lower than the thrift banking industry with a Return on Ave. Equity (ROE) of -14.22%, versus the industry of 10.58%. Its Net Interest Margin is 3.78% as against the industry's 5.43%.

The bank continues to adopt measures to provide a strong and stable financial condition.

The manner by which the Bank calculates the above indicators is as follows:

<b><i>Key Performance Indicator</i></b>	<b><i>BSP Prescribed Formula</i></b>
Capital to Risk Assets Ratio	Total Qualifying Capital / Market and Credit Risk Weighted Exposures
Non-performing Loan (NPL) Ratio	Non-performing Loans / Gross Loans
Non-performing Loan (NPL) Cover	Allowance for Probable Losses / Non-performing Loans
Loans to Deposits Ratio	Total Loans / Total Deposits
Return on Average Equity	Net Income After Income Tax / Average Total Capital Accounts
Net Interest Margin	Net Interest Income / Average Interest Earning Assets
Cost to Income	Total Operating Expenses / Net Interest Income + Other Income

A schedule showing financial soundness indicators in two (2) comparative periods is as follows:

	December 2015	December 2014
1. Liquidity Ratio	0.34:1	0.41:1
2. Solvency Ratios		
a) current ratio	0.34:1	0.41:1
b) current liabilities to net worth ratio	6.80:1	4.87:1
3. Debt-to-equity ratio	7.08:1	5.06:1
4. Asset-to-equity ratio	8.08:1	6.06:1
5. Interest rate Coverage ratio	5.06:1	2.18:1
6. Profitability Ratio		
a) Return on Asset Ratio	-2.03%	-1.69%
b) Return on Net Worth Ratio	-11.83%	-10.28%

### **December 31, 2013**

#### Interest Income

Gross Interest Income ended higher than prior year by 6.78% or P16.017 million on account of significant improvement and income on jewelry loan related and other Bank's lending related activities during the period. Interest Income on Loans Receivable climbed to P240.258 million, 10.55% much better than the P217.338 million recorded last year as a result of the steady growth in the Bank's loan portfolio. On the other hand, interest income on Due from BSP and Other Banks was lower at P8.575 million versus P13.694 million a year ago. Available for Sale Securities declined from P5.217 million to P3.434 million. Interest income on Held to Maturity declined to P0.00 due to maturities of various placements. The Gross Interest Income of P252.267 million represents 78.89% of the Bank's total gross income for the year 2013 which amounted to 319.761 million.

#### Interest Expense

Interest Expense on the Bank's deposit liabilities was lower by 2.49% at P27.208 million versus last year's P27.904 million on account of lower deposit level. The Interest Expense of P27.208 million is 10.78% of the Gross Interest Income of P252.267 million.

#### Other Income

Other Income comprising of Service Charges and Fees, Trading Gains and Miscellaneous Income posted a 23.69% increase in 2013 versus its performance in 2012. Of the 2013 increase in Other Operating Income, fee-based sources accounted for 4.88%, while Miscellaneous Income posted an increase of 38.76%. The amount of P67.495 million represents 21.11% of the bank's Total Gross Income in 2013 in the amount of P319.762 million.

#### Other Expenses

As of December 31, 2013, the Total Other Expenses increased by P31.483 million from P243.108 million versus this year's figure of P274.591 million. This was mainly due to increases in Repairs and Maintenance which increased by 7.82% from P4.502 million last year versus P4.854 million this year. Employee Benefits from P87.803 million to P100.212 million or an increase of 14.13%. Fuel and Oil increased by P40.50% from P7.325 million to P10.292 million while Security, Janitorial and Messenger Services from P25.525 million to P30.859 million. Likewise, Taxes and Licenses increased from P13.984 million to P15.074 million, while Communication, Light and Water increased by 10.90% from P22.330 million to P24.764 million, Occupancy from P26.073 million to P27.796 million. Litigation / Assets Acquired increased by 37% and Depreciation and Amortization rise to P16.931 million from P15.120 million. However, other operating expenses was reduced to P23.263 from P24.336 million last year.

#### Net Income

The Bank's Net Income for the year decreased to P.329 million compared to last year's P1.699 million.

#### Cash and Other Cash Items

Cash and Other Cash items up by 4.06% from P122.575 million in the year ending 2012 as against P127.556 million in 2013.

#### Due from BSP and Other Banks

Due from BSP and Other Banks increased by 135.96% from P338.745 million in 2012 to P799.315 million in 2013 as investible funds were placed in local banks. Due from BSP and Other Banks is 22.77% of Total Resources.

#### Available-For-Sale Securities

Available-for-Sale Investments representing 2.71% of total assets decreased by 6.41% from P102.026 million to P95.250 million in 2013.

#### Loans and Receivables

Loans and Receivables increased to P1.981 billion from P1.979 billion in 2012. The amount of P1.981 billion is 56.44% of Total Resources.

#### Bank Premises, Furniture, Fixtures and Equipment

This account increased to P223.138 million from P189.032 million due to accumulated depreciation and amortization. The net amount of P223.138 million represents 6.36% of the Total Resources.

#### Other Resources

Other Resources increased by 130.84% from P111.474 million in 2012 to P257.322 million in 2013. The amount of P257.322 million is 7.33% of Total Resources.

#### Total Deposit Liabilities

Deposits generated by the Bank's twenty-seven (27) branches increased by P631 million from P2.049 billion to P2.680 billion at the end of 2013. Of this amount, P2.125 billion

or 79.29% comprised savings deposits while the remaining 7.96% or P279.287 million is in the form of demand deposits. The 30.79% increase in Deposit Liabilities can be attributed to the Bank's aggressive marketing strategy. The Total Deposit Liabilities of P2.680 billion is 97.45% of the Total Liabilities and 76.35% of the Total Liabilities and Equity.

#### Other Liabilities

This account increased by 8.48% from P64.534 million to P70.005 million at the end of 2013. The ending balance of P70.005 million is 2.55% of the total liabilities.

#### Capital Funds/Equity

Capital Funds/Equity decreased by P4.318 million in 2013. Net Income for the year was P329 thousand.

#### Capital Adequacy Ratio (CAR)

The bank posted a higher than industry risk-based capital adequacy ratio of 31.61% versus the 16.24% of the industry and much higher than the minimum 10% mandated by the Bangko Sentral ng Pilipinas.

#### Liquidity

CSBI's loans to deposit ratio is 70.82%.

### **December 31, 2014**

#### Interest Income

Gross Interest Income for the twelve (12) months ending December 31, 2014 amounted to P221.612 million from P252.267 million over the same period in 2013 for a 13.83% decrease. Of the former amount, about 90.90% came from its lending operations which amounted to P201.449 million and the rest were from Due From BSP and other Banks which increased from P8.575 million to P15.357 million and Available-for-sale securities which rose from P3.434 million to P4.806 million. The Gross Interest Income of P221.612 million represents 77.49% of the bank's total gross income for the year 2014 which amounted to P283.936 million.

#### Interest Expense

Interest Expense increased by 8.31% from P27.448 million in 2013 to P29.730 million for the period ending December 31, 2014. The Interest Expense of P29.730 million is 13.42% of the Gross Interest Income of P221.612 million.

#### Other Income

Other Income comprising of Service Charges and Fees and Miscellaneous Income posted an 8.40% decrease in 2014, versus its performance in 2013. Of the 2014 decrease in Other Operating Income, fee-based sources accounted for P17.499 million while Miscellaneous Income is accounted for P44, 732 million. The amount of P62, 324 million represents % of the bank's Total Gross Income in 2014 in the amount of P283, 936 million.

#### Other Expenses

Other operating expenses increased by 6.17% from P275.136 million in 2013 versus P292.107 million in 2014. This was due to increases in Employee Benefits from P100.212 million to P106.834 million, Security, Janitorial and Messengerial Services from P30.859 million to P32.546 million, Occupancy from P27.796 million to P28.167 million, Communication, Light and Water from P24.764 million to P27.782 million, Depreciation and Amortization from P16.931 million to P19.526 million, Taxes and Licenses from P15.074 million to P16, 010 million and Fuel and Oil from P10.292 million to P11.006 million. The total Other Operating Expenses of P292.107 million is 90.76% of the total expenses.

#### Net Income

Net Income decreased by P70.714 million from a P0.329 million income in 2013 to P71.043 million net loss in 2014.

#### Cash and Other Cash Items

Cash and Other Cash Items posted a P24.691 million increase from P127.556 million in the year ending 2013 as against P152.247 million in 2014.

#### Due from BSP and Other Banks

Due from BSP and Other Banks increased by 57.44% from P799.314 million in 2013 to P1.258 billion in 2014 as investible funds were placed in local banks. Due from BSP and Other Banks is 30% of Total Resources.

#### Available-For-Sale Securities

Available-for-Sale Investments representing 2.08% of total assets decreased by 8.42% from P95.250 million to P87.226 million in 2014.

#### Loans and Receivables

Loans and Receivables increased to P2.131 billion from P1.981 billion in 2013. The amount of P2.131 billion is 50.83% of the Total Resources.

#### Bank Premises, Furniture, Fixtures and Equipment

This account increased to P225.148 million from P223.138 million. The net amount of P225.148 million represents 5.37% of the Total Resources.

#### Other Resources

Other Resources increased by 22.75% from P257.278 million in 2013 to P315.800 million in 2014. The amount of P315.800 million is 7.53% of Total Resources.

#### Total Deposit Liabilities

Deposits generated by the bank's twenty-eight (28) branches increased by P717 million. From P2.680 billion, Total Deposit Liabilities reached P3.397 billion at the end of 2014. Of this amount, P2.689 billion or 79.16% comprised savings deposits while the remaining 20.84% or P708 million is in the form of time and demand deposits. The Total Deposit Liabilities of P3.397 billion is 97.03% of the Total Liabilities and 81.03% of the Total Liabilities and Equity.

### Other Liabilities

This account increased by 48.91% from P69.960 million to P104.180 million. The ending balance of P104.180 million is 2.98% of the total liabilities.

### Capital Funds/Equity

Capital Funds/Equity decreased by P69.402 million in 2014. Net Loss for the year was P71.043 million.

### Capital Adequacy Ratio (CAR)

The bank posted a higher than industry risk-based capital adequacy ratio of 27.31% versus the 14.95% of the industry.

### Liquidity

CSBI's loans to deposit ratio is 59.11%.

## **December 31, 2015**

### *Interest Income*

Gross Interest Income for the twelve (12) months ending December 31, 2015 amounted to P202.216 million from P221.612 million over the same period in 2014 for an 8.75% decrease. Of the former amount, about 85.76% came from its lending operations which amounted to P173.419 million and the rest were interest from Due from BSP and other banks which increased from P15.357 million to P21.321 million and Available-for-sale securities which rose from P4.806 million to P7.476 million. The Gross Interest Income of P202.216 million represents 82.68% of the bank's total gross income for the year 2015 which amounted to P244.569 million.

### *Interest Expense*

Interest Expense increased by 26.56% from P29.730 million in 2014 to P40.484 million for the period ending December 31, 2015. The Interest Expense of P40.484 million is 20.02% of the Gross Interest Income of P202.216 million.

### Other Income

Other Income comprising of Service Charges and Fees and Miscellaneous Income posted a 32.14% decrease in 2015, versus its performance in 2014. Increase in fee-based sources accounted for P18.097 million while decrease in Miscellaneous Income is accounted for P24.256 million. The amount of P42.353 million represents 17.32% of the bank's Total Gross Income in 2015 in the amount of P244.569 million.

### Other Expenses

Other operating expenses increased by 2.04% from P292.200 million in 2014 versus P298.296 million in 2015. This was due to increase in Security, Janitorial and Messengerial Services from P32.546 million to P37.465 million, Occupancy from P28.167 million to P29.600 million, Depreciation and Amortization from P19.696 million to P31.097 million, Taxes and Licenses from P16.010 million to P17.546, and Insurance from P14.639 million to P15.757 million. The total Other Operating Expenses of P298.296 million is 88.05% of the total expenses.

#### Net Income

The Bank posted a net loss of P86.654 million for 2015 versus P71.043 million of 2014.

#### Cash and Other Cash Items

Cash and Other Cash Items posted a P53.092 million decrease from P152.247 million in the year ending 2014 as against P99.155 million in 2015.

#### Due from BSP and Other Banks

Due from BSP and Other Banks increased by 5.63% from P1.258 billion in 2014 to P1.329 billion in 2015 as investible funds were placed in local banks. Due from BSP and Other Banks is 27.29% of Total Resources.

#### Available-For-Sale Securities

Available-for-Sale Investments representing 8.71% of total assets increased by 386.32% from P87.226 million to P424.195 million in 2015.

#### Loans and Receivables

Loans and Receivables increased to P2.496 billion from P2.131 billion in 2014. The amount of P2.496 billion is 51.25% of the Total Resources.

#### Bank Premises, Furniture, Fixtures and Equipment

This account decreased to P224.501 million from P225.148 million. The net amount of P224.500 million represents 4.61% of the Total Resources.

#### Other Resources

Other Resources decreased by 14.34% from P315.800 million in 2014 to P270.523 million in 2015. The amount of P270.523 million is 5.55% of Total Resources.

#### Total Deposit Liabilities

Deposits generated by the bank's thirty (30) branches increased by P747 million. From P3.397 billion, Total Deposit Liabilities reached P4.144 billion at the end of 2015. Of this amount, P3.254 billion or 78.53% comprised savings deposits while the remaining 21.47% or P890 million is in the form of time and demand deposits. The Total Deposit Liabilities of P4.144 billion is 97.23% of the Total Liabilities and 85.06% of the Total Liabilities and Equity.

#### Other Liabilities

This account increased by 11.87% from P104.181 million to P118.214 million. The ending balance of P118.214 million is 2.77% of the total liabilities.

#### Capital Funds/Equity

Capital Funds/Equity decreased by P81.652 million in 2015. Net Loss for the year was P86.654 million.

#### Capital Adequacy Ratio (CAR)

The bank posted a higher than industry risk-based capital adequacy ratio of 19.30% versus the 16.53% of the industry.



### Liquidity

CSBI's loans to deposit ratio is 61.15%.

### Other known Trends, Demands, Commitments, Events or Uncertainties

There are no other known trends or any other known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The registrant is not having or does not anticipate having within the next twelve (12) months any cash flow or liquidity problems. The registrant is not in default nor in breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. There is no significant amount of trade payables that have not been paid within the stated trade terms. There is likewise no material deficiency that can be identified.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material, favorable or unfavorable, impact on revenues or income from continuing operations.

### Material Commitments for Capital Expenditures

There are no material commitments for capital expenditures.

### Significant Elements of Income or Loss

There are no significant elements of income or loss that did not arise from the registrant's continuing operations.

### Other Key Variable and Qualitative/Quantitative Factors

As to any seasonal aspects that may have material effect on the financial condition or result of operations, the registrant is not affected by the current worries on peso-dollar exchange, as the bank has no exposure on any foreign currency related transactions.

There are no events that would trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

No material off-balance sheet transaction, arrangement, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons are created during the reporting period.

### **Past and Future Financial Condition and Results of Operation with particular emphasis on the prospects for the future.**

For 2015, Citystate Savings Bank opened an additional two (2) branches. The bank's clients could look forward to more innovative, competitive and customized products and services.

The bank's deposit base anchored on retail banking is consistently increasing thereby maintaining an above average level of liquidity while it selectively appropriates its excess loanable funds.

### Prospects for the Future

For the year 2015, CSBI will focus on further enhancing its service delivery system through the following action plans:

- Development of more bank products and services;
- Intensify SME lending and jewelry loan operations;
- Pursue a more aggressive marketing strategy and focus on the target market;
- Highly efficient and productive personnel coupled with cost-effective technology;
- A strong advertising and promotional campaign;
- Reputation of good service and expertise;
- Effective cost-control.

In terms of financial performance and results of operation, the bank is very optimistic to overcome its 2015 performance as it pursues aggressively its marketing strategies to deepen its reach to its target market.

### ITEM 7. FINANCIAL STATEMENTS

The Audited Financial Statements of Citystate Savings Bank as of December 31, 2015 is presented in Annex I of this report and contains the following:

- A. Report of Independent Auditors
- B. Statement of Condition as of December 31, 2015 and 2014
- C. Statement of Income for the years ended December 31, 2015 and 2014
- D. Statement of Changes in Equity for the years ended December 31, 2015 and 2014
- E. Statement of Cash flows for the years ended December 31, 2015 and 2014
- F. Accompanying notes to the Financial Statements
- G. Supplementary Schedules
- H. Statement of Management's Responsibility for Financial Statements

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The financial statements of the Bank for the years ended December 31, 1997, 1998, and 1999, including the notes thereto, were audited by the firm Sycip, Gorres, Velayo & Co. For the year ending December 31, 2000, the Bank changed its external auditors to the firm of Punongbayan and Araullo. The financial statements of the bank for the year ended December 31, 2000 with comparative figures for the year ended December 31, 1999, including the notes thereto, have been audited by Punongbayan and Araullo. Succeeding financial examinations were conducted by the same firm.

It is the Bank's policy to review its external auditors every three (3) years and may opt to change auditors at this point in time. There were no disagreements with either Sycip, Gorres, Velayo & Co. or Punongbayan and Araullo on accounting/financial disclosures.

## **Independent Public Accountants**

### **External Audit Fees and Services**

The external audit and consultancy fees for the years 2015 and 2014 were as follows:

	<u>Year ended</u> <u>December 31, 2015</u>	<u>Year ended</u> <u>December 31, 2014</u>
Audit Fees (Incurred by Registrant)	P1,150,000.00	P1,080,000.00
Audit-Related Fees	-	-
Tax Fees - VAT	138,000.00	129,600.00
All Other Fees	-	-
<b>Total</b>	<b><u>P1,288,000.00</u></b>	<b><u>P1,209,600.00</u></b>

The accounting firm of Punongbayan & Araullo (Member of Grant Thornton International) has been the Company's Independent Public Accountant for the last sixteen (16) years. The same accounting firm is being recommended for election by the stockholders at the scheduled Annual Meeting of stockholders. Its re-appointment complies with the requirement of SEC under SRC Rule 68 (3) (b) (iv) regarding rotation of external auditors or engagement partners.

Representatives of the principal accountants (Punongbayan & Araullo) are expected to be present at the Annual Stockholders' Meeting. They will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

There was no event in the past sixteen (16) years where Punongbayan & Araullo and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

As a policy, the Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope and frequency before the audit is conducted. Audit services of external auditors for the years 2012 and 2011 were pre-approved by the Audit Committee. The Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors is preserved.

## **PART III – CONTROL AND COMPENSATION INFORMATION**

### **ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER**

#### **Board of Directors**

Upon election/re-election to the Board of Directors, a member has a term of office of one (1) year.

The following are the incumbent members of the Board of Directors of the Bank:

**D. Alfred A. Cabangon, 49, Chairman.** Mr. Cabangon is a Filipino citizen. He graduated from the De La Salle University with a Bachelor of Science in Commerce degree, major in Accounting in 1987. Mr. Cabangon is a Certified Public Accountant. He is the Chairman of Fortune Life Insurance Co., Inc. He is presently a director of Fortune General Insurance Corporation, Fortune Medicare, ALC Industrial & Commercial Development Corporation, and ALC Realty & Development Corporation.

He was elected as Chairman of the Bank last March 29, 2016. He has been the Chairman of the Board and President of Citystate Savings Bank, Inc. from 2005 up to 2011.

**Alfonso G. Siy, 68, Vice Chairman.** Mr. Siy is a Filipino citizen. He is a graduate of the University of the East with a Bachelor of Science in Business Administration in 1969. Aside from being a director of the bank, Mr. Siy is also a director of the Ever Fortune Thermoplas Corp., Citystate Tower Hotel, Cherry Blossom Hotel and Phil. Fishing Gears Industries.

He has been a director of Citystate Savings Bank, Inc. since the start of the bank in 1997.

**Benjamin V. Ramos, 52, Director and President.** Mr. Ramos is a Filipino citizen. He graduated from the University of Sto. Tomas with a Bachelor of Science in Commerce in 1983. Mr. Ramos is a Certified Public Accountant. He is currently the President of Philippine Graphic Publications Inc., Philippine Business Daily Mirror Publishing, Inc. and Radio Philippines Network. He is a director of Eternal Gardens Group of Companies and Fortune Insurance Group.

He has been re-elected as director of Citystate Savings Bank, Inc. in February 2015 and appointed as President of the Bank last April 06, 2015.

**D. Arnold A. Cabangon, 45, Director & Corporate Treasurer.** Mr. Cabangon is a Filipino citizen. He graduated from Ateneo de Manila University in 1992 with a Bachelor of Arts degree in Management Economics. He is the President of Fortune Life Insurance Company and a director of AAA Southeast Equities, Inc. and FIG Lending Investors Corporation. He is also the Senior Vice President of Fortune General Insurance Corporation.

He has been a director of Citystate Savings Bank, Inc. since April 2000.

**J. Antonio A. Cabangon, Jr., 47, Director.** Mr. Cabangon is a Filipino citizen. He graduated from California State University in 1990 with a degree in Bachelor of Science in Finance. He is the Chairman and CEO of Fortune General Insurance Corp. and Treasurer of Fortune Life Insurance, Co.

He has been a director of Citystate Savings Bank, Inc. since August 2007.

**Engr. Feorelio M. Bote, 73, Director,** is a citizen of the Philippines. Mr. Bote graduated from Mapua Institute of Technology with a degree in Civil Engineering in 1964. Besides being a director of the bank, Mr. Bote is also a director of Citystate Properties &

Management Corporation.

He has been a director of Citystate Savings Bank, Inc. since the start of the bank in 1997.

**Ramon L. Sin, 82, Director.** Mr. Sin is a Filipino citizen. He is a graduate of the University of Santo Tomas where he received an Associate in Arts degree in 1950. He finished his Doctor of Medicine from the same university in 1955. Dr. Sin is the Assistant to the Rector for Grants and Endowment of the University of Santo Tomas. He is also the Vice Chairman of Fortune Medicare, Inc., a Board Member of Fortune Life Insurance Co., Inc. and Eternal Plans, Inc., and the Medical Director of Philippine Airlines. He also chairs the KAAD (Scholarship Foundation of the German Catholic Bishop's Conference) at the University of Santo Tomas.

He has been a director of Citystate Savings Bank, Inc. since 2002.

**Pedro E. Paraiso, 82, Director.** Mr. Paraiso is a Filipino citizen. He is a graduate of the University of the East in 1955 with a Bachelor of Science degree in Business Administration. He took up post graduate studies at the University of the East and Ateneo de Manila University. He is a director of various companies. Mr. Paraiso is a Certified Public Accountant.

He has been a director of Citystate Savings Bank, Inc. since December 2008.

**Atty. Emmanuel R. Sison, 66, Director.** Mr. Sison is a Filipino citizen. He is a graduate of Ateneo de Manila University with a Bachelor of Arts degree in Economics in 1970; and Adamson University with a Bachelor of Laws in 1975. He finished his masteral degree in Government Management at the Pamantasan ng Lungsod ng Maynila in 2007. Mr. Sison is a lawyer and a Senior Partner of Quiason, Makalintal, Barot, Torres, Ibarra, Sison & Damaso Law Firm. He is presently a director of Quialex Realty Corporation. Prior to this, he was the corporate secretary and a consultant of Meralco from 2008 to 2010. He was the Secretary to the Mayor of the City of Manila from 1998 to 2007 and the secretary to the City Council of Manila, from 1992 until 1998.

He has been a director of Citystate Savings Bank, Inc. since October 25, 2011.

**Lucito L. Sioson, 77, Independent Director.** Mr. Sioson is a Filipino citizen. He graduated from the University of the East in 1958 with a Bachelor of Science degree in Business Administration. He was the Special Assistant to the President and CEO of Social Security System from November 2001 to July 2008 before joining the bank. Mr. Sioson is a Certified Public Accountant.

He has been a director of Citystate Savings Bank, Inc. since December 2008.

**Justice Jose Armando R. Melo, 83, Independent Director.** Justice Melo is a Filipino citizen. He took Bachelor of Laws at Manuel L. Quezon University in 1956, and graduated Master of Laws at the University of Santo Tomas in 1960. He is a lawyer and jurist who served as an Associate Justice of the Supreme Court of the Philippines from 1992 to 2002. He was the former Chairman of the Commission on Elections (COMELEC) from 2008 to 2011. He is presently a director of Clark Development

Corporation. Prior to this, he was a director & Chairman of PNOC-EC from 2005-2008. Other positions he held in his almost 45 years of government service were Associated Justice, Court of Appeal; Commissioner, Civil Service Commission; and Commissioner, Professional Regulation Commission.

He has been a director of Citystate Savings Bank, Inc. since February 28, 2012.

**Wilfredo S. Madarang, Jr., 67, Independent Director.** Mr. Madarang is a Filipino Citizen. He is a graduate of the University of the East with a Bachelor of Business Administration in 1970. He is a Trustee of Isla Lipana & Company Foundation, Inc. and a director/president of Wilko21 Global Trade, Incorporated. He is also a past director/vice president of the Philippine Institute of Certified Public Accountants and the Association of Certified Public Accountants in Public Practice.

He was first elected as director of Citystate Savings Bank, Inc. last October 27, 2015.

Messrs. Lucito L. Sioson, Jose Armando R. Melo and Wilfredo S. Madarang, Jr. are the three (3) independent directors of the Bank. They have no shareholdings in any of the affiliates of the Bank.

#### **Executive Officers**

**Benjamin V. Ramos, 52, Director and President.** Mr. Ramos is a Filipino citizen. He graduated from the University of Sto. Tomas with a Bachelor of Science in Commerce in 1983. Mr. Ramos is a Certified Public Accountant. He is currently the President of Philippine Graphic Publications Inc., Philippine Business Daily Mirror Publishing, Inc. and Radio Philippines Network. He is a director of Eternal Gardens Group of Companies and Fortune Insurance Group.

He has been re-elected as director of Citystate Savings Bank, Inc. in February 2015 and appointed as President of the Bank last April 06, 2015.

**Emerson G. Igarita, 51, Vice President,** is the head of Internal Audit Department. Prior to his stint with the bank in 1998, he worked with Guzman, Bocaling & Co., CPAs, Monte de Piedad and Orient Bank. He graduated from the Philippine School of Business Administration with a degree in Bachelor of Science in Business Administration major in Accounting in 1986. He is a Certified Public Accountant (CPA).

**Des Corazon D. Cruz, 56, Vice President,** is the head of Related Party Transaction Department. She joined the bank on March 2004. She also worked with Philippine Investment Management Consultants, Inc. (PHINMA) before she started her banking career at Far East Bank and Trust Co. and Banco De Oro Universal Bank. She is a graduate of St. Paul College of Quezon City with a degree of Bachelor of Arts major in Economics.

**Lawrence K. Cementina, 39, Vice President,** is the Head of the Branch Banking Group. He joined the bank in November 2012. He started his banking career in 1997 at Traders

Royal Bank. He graduated from San Beda College with a degree in Bachelor of Science in Management and Entrepreneurship in 1997.

**Joseph D. Gonzaga, 39, Assistant Vice President**, is the Head of Account Management Department. He joined the bank in October 2014. He started his banking career in 1997 at Traders Royal Bank. He is a graduate of San Beda College with a Bachelor of Science in Management Entrepreneurship.

**Meliton A. Narciso, 42, Assistant Vice President**, is the Head of the Treasury Department. He joined the bank in January 2013. He also worked as Investment Officer of Maybank Trust Department in 2009. He started his investment banking career at Multinational Bancorporation in 1999. He also worked at National Economic and Development Authority in 1993. He is a graduate of University of Sto. Tomas with a degree in A.B. Economics in 1993. He completed his master's in Business Administration at the Ateneo de Manila University in 2002.

**Gemma F. Montes, 58, Assistant Vice President**, is the head of the Human Resources Department since May 19, 2014. Her previous work appointment under ALC Group of Companies was at Eternal Gardens Memorial Park Corporation in Makati City as HR Practitioner for 18 years. She graduated Cum Laude from West Negros University, Bacolod City, with a degree in Bachelor of Science in Psychology. She also obtained Masters in Business Administration (MBA) from the Pamantasan ng Lungsod ng Maynila (PLM) in 2006.

**Maria Christine A. Villanueva, 41, Assistant Vice President**, is the bank's Corporate Planning Department Head. She joined the bank as Quality Assurance Officer last May 2012. She was part of the bank's Finacle Core Team when the bank decided to acquire a new banking system, year 2013.

She started her banking career in 1997 at International Exchange Bank that merged with Union Bank year 2006. She graduated from Polytechnic University of the Philippines with a degree in Bachelor of Computer Data Processing Management in 1995.

**Jeffrey B. Domingo, 43, Assistant Vice President**, is the Head of Information Technology Department. He joined the bank in June 2013. Prior to this, he had worked for Robinsons Bank. He is a graduate of Adamson University with a degree in Bachelor of Science in Computer Science in 1995.

**Martin Jerry E. Machado, 44, Assistant Vice President**, is the Head of General Accounting Department. He joined the bank in May 2000. He started his banking career in 1996 at Orient Commercial Bank and Philippine Deposit Insurance Corporation. He is a graduate of Ateneo de Zamboanga University with a Bachelor of Science in Business Administration and Management.

The Bank is not solely dependent to any significant employee for the success of its operations.

#### Family Relationships

The late Amb. Antonio L. Cabangon Chua is the father of Messrs. D. Alfred A. Cabangon, D. Arnold A. Cabangon, J. Antonio A. Cabangon, Jr. and J. Wilfredo A.

Cabangon while the latter four are siblings.

Involvement in Certain Legal Proceedings

The Bank has no derogatory information concerning any bankruptcy petition, civil or criminal proceedings or any order of judgment issued by the local or foreign court against any of its directors or executive officers that would render them unfit for their position in the Bank.

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the aggregate compensation of the executive officers of the Bank for the period ended December 31, 2014 to December 31, 2015 (with estimate for year 2016).

<b>Year</b>	<b>Name and Principal Position</b>	<b><u>Salaries</u></b>	<b><u>Bonuses</u></b>
For the twelve Months Ended December 31, 2014	EXECUTIVE OFFICERS Andres Y. Narvasa, Jr. Atty. Rey D. Delfin – President Eduardo O. Olavario – Vice President Jeffrey T. Tantiado – Vice President Emerson G. Igarta – Vice President	6,893,649.24	1,348,841.54
	<i>All Executive Officers as a Group</i>	8,242,490.78	
	<i>All Board Directors and Officers as a Group</i>	8,242,490.78	
For the twelve Months Ended December 31, 2015	EXECUTIVE OFFICERS Andres Y. Narvasa, Jr. - Chief Executive Officer Benjamin V. Ramos – President Lawrence K. Cementina – Vice President Emerson G. Igarta – Vice President Des Corazon D. Cruz – Vice President	6,400,870.64	1,103,478.44
	<i>All Executive Officers as a Group</i>	7,504,349.08	
	<i>All Board Directors and Officers as a Group</i>	7,504,349.08	
For the Year Ending December 31, 2016 (Estimated)	EXECUTIVE OFFICERS Benjamin V. Ramos – President Lawrence K. Cementina – Vice President Emerson G. Igarta – Vice President Des Corazon D. Cruz – Vice President Joseph D. Gonzaga – Assistant Vice President	6,080,870.64	1,013,478.44
	<i>All Executive Officers as a Group</i>	7,094,349.08	



	All Board Directors and Officers as a Group	7,094,349.08
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### **Other Annual Compensation**

There is no other annual compensation not properly categorized as salary or bonus.

#### Compensation of Directors

##### (a) Standard Arrangements

At present, its members of the board of directors do not receive any fixed regular monthly compensation from the bank, except per diem allowance in the amount of five thousand pesos (Php 5,000.00) for every board and committee meeting attended.

##### (b) Other Arrangements

There are no other arrangements, including consultancy contracts, pursuant to which any director of the registrant was compensated, or is to be compensated, directly or indirectly, during the registrant's last completed fiscal year, and the ensuing year, for any service provided as a director.

### **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

##### (a) Employment Contract

All executives officers listed above are regular employees who derive pure compensation income, in the form of salaries and bonuses from CSBI.

##### (b) Compensatory Plan or Arrangement

There is no compensatory plan or arrangement, including payments to be received from the registrant, with respect to a named executive officer, that will result from the resignation, retirement or any other termination of such executive officer's employment with the registrant and its subsidiary or from a change-in-control of the registrant or a change in the named executive officer's responsibilities following a change-in-control where the amount involved, including all periodic payments or installments, exceeds P2,500,000.

### **Warrants and Options Outstanding Repricing**

##### (a) Outstanding Warrants or Options

There are no outstanding warrants or options held by the registrant's CEO, the named executive officers above, and all officers and directors as a group.

(b) Repricing

At any time during the last completed fiscal year, the registrant, while a reporting company, has not adjusted or amended any exercise price of stock warrants or options; nor is there any previously awarded stock warrants or option to any of the officers and directors of CSBI, whether through amendment, cancellation or replacement grants, or any other means.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

1. Security Ownership of Certain Record and Beneficial Owners

The person known to the registrant to be directly or indirectly the record or beneficial owner of more than five (5%) of the registrant's voting securities as of December 31, 2015 are as follows:

Title of class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Estate of the late Antonio L. Cabangon Chua, 5 <sup>th</sup> Flr., Dominga Bldg. III, 2113 Chino Roces Ave., Makati City	D. Arnold A. Cabangon, Executor of the Estate	Filipino	14,206,114	19.52328%
	D. Alfred A. Cabangon, Director 2 <sup>nd</sup> Flr., Citystate Centre Bldg., 709 Shaw Blvd., Pasig City	D. Alfred A. Cabangon, Beneficial & Record Owner	Filipino	8,283,330	11.38367%
	Fortune Life Insurance Company, Inc., Affiliate Fortune Life Bldg., 162 Legaspi St., Legaspi Village, Makati City	D. Arnold A. Cabangon, Director	Filipino	7,499,250	10.30612%
	Fortune General Insurance Corporation, Affiliate	J. Antonio A. Cabangon, Jr. Director	Filipino	5,484,000	7.53659%

	4 <sup>th</sup> Flr., Citystate Centre Bldg., 709 Shaw Blvd., Pasig City				
	Top Ventures Investments & Management, Affiliate Dominga Bldg. III, 2113 Chino Roces Ave., Makati City	D. Arnold A. Cabangon, Executor of the Estate	Filipino	4,902,594	6.73757%
	Feorelio M. Bote Director 581 Wack Wack Road Shaw Blvd., Mandaluyong City	Feorelio M. Bote, Beneficial & Record Owner	Filipino	4,302,500	5.91287%

Shares of stock owned by Fortune General Insurance Corp., Top Ventures Investments & Management, and Fortune Life Insurance Co., Inc., are being represented and voted for by J. Antonio A. Cabangon, Jr. and D. Arnold A. Cabangon, respectively.

**1. Security Ownership of Management as of December 31, 2015**

**Directors**

Title of class	Name of Beneficial Owner	Amount and nature of beneficial ownership	Citizenship	Percent of Class
Common	Estate of the late Antonio L. Cabangon Chua	14,206,114	Filipino	19.52%
Common	D. Alfred A. Cabangon	8,283,330	Filipino	11.38%
Common	Feorelio M. Bote	4,302,500	Filipino	5.91%
Common	Alfonso G. Siy	1,650,000	Filipino	2.27%
Common	Benjamin V. Ramos	23,351	Filipino	0.03%
Common	J. Antonio A. Cabangon Jr.	1,000	Filipino	0.00%
Common	Ramon L. Sin	110	Filipino	0.00%

Common	Wilfredo S. Madarang, Jr.	10	Filipino	0.00%
Common	D. Arnold A. Cabangon	1	Filipino	0.00%
Common	Lucito L. Sioson	1	Filipino	0.00%
Common	Pedro E. Paraiso	1	Filipino	0.00%
Common	Emmanuel R. Sison	1	Filipino	0.00%
Common	J. Armando R. Melo	1	Filipino	0.00%
	<b>TOTAL</b>	28,466,420		39.12%

### **Officers**

Title of class	Name of Beneficial Owner	Amount and nature of beneficial ownership	Citizenship	Percent of Class
Common	-	-	-	0.00%
<b>TOTAL</b>				0.00%

### **Directors and Officers as a Group**

Title of Class	Director	Officer	Total	Percent of Class
Common	28,466,420	0	28,466,420	39.12%

### **Changes in Control**

In compliance with the PSE's Rules and Regulations, all existing stockholders of the Bank have voluntarily agreed not to sell or otherwise dispose of their shareholdings within a period of two (2) years from the date of listing of the Bank's Shares thereby maintaining control by the same group during this period.

### **Voting Trust Holders of 5% or More**

No person holds more than 5% of a class under a voting trust or similar agreement.

## ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### **Certain Relationships and Related Transactions**

In the ordinary course of business, the Bank has loan transactions with its affiliates and with certain directors, officers, stockholders and other related interests (DOSRI). Under the existing policies of the Bank, these loans are made substantially the same terms as loans to other individuals and business comparable risks. The General Banking Act of the BSP regulations limit the amount of the loans granted by a Bank to each affiliate 25% of capital funds. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower.

### **Transactions with Related Parties**

#### **1. ALC BALIWAG CINEMA & SHOPPING COMPLEX, INC.**

The Bank leases its Baliuag branch from ALC Baliwag Cinema & Shopping Complex, Inc., estate of the late Antonio L. Cabangon Chua owns 60% of this company. The late Antonio L. Cabangon-Chua is related by first degree of consanguinity to D. Edward A. Cabangon who owns 25% of the shares, J. Wilfredo A. Cabangon, D. Alfred A. Cabangon and D. Arnold A. Cabangon who owns 5% of the total shares each.

#### **2. ALC REALTY DEVELOPMENT CORPORATION**

The Bank leases its Chino Roces, New Panaderos and Pasay branches and the Meycauayan Branch ATM Site from ALC Realty Development Corporation. Estate of the late Antonio L. Cabangon Chua owns 44% of the company's total shares. The late Antonio L. Cabangon-Chua is related by first degree of consanguinity to J. Wilfredo A. Cabangon and T. Anthony C. Cabangon with 28% of the total shares each.

#### **3. ALIW CINEMA COMPLEX, INC.**

The bank leases its Meycauayan branch from Aliw Cinema Complex, Inc., estate of the late Antonio L. Cabangon Chua owns 10% of the company's total shares, while his sons, J. Wilfredo A. Cabangon, D. Edward A. Cabangon, D. Edgard A. Cabangon, D. Alfred A. Cabangon, J. Antonio A. Cabangon, and D. Arnold A. Cabangon owns 15% of the total shares each.

#### **4. ALIW MANAGEMENT VENTURES, INC.**

This company has an existing loan with the Bank which will mature on November 17, 2017. The Bank leases its Taguig Branch ATM Site from Aliw Management Ventures, Inc., J. Antonio A. Cabangon, Jr. owns 36% of the company's total shares. The following are related to him by second degree of consanguinity, D. Edward A. Cabangon, D. Arnold A. Cabangon, D. Alfred A. Cabangon and J. Wilfredo A. Cabangon, each owns 16% of the total shares.

**5. AMB. ALC HOLDINGS & MANAGEMENT CORPORATION**

The Bank leases its Dagupan Branch and Cubao Branch ATM Site from AMB ALC Holdings & Management Corporation. Estate of the late Antonio L. Cabangon-Chua owns 20% of the total company's total shares. J. Wilfredo A. Cabangon, D. Edgard A. Cabangon, D. Edward A. Cabangon, D. Alfred A. Cabangon, J. Antonio A. Cabangon, Jr., D. Arnold A. Cabangon and D. Cecilia A. Cabangon are related to the late Amb. Antonio L. Cabangon-Chua by first degree of consanguinity, each owns 10% of the total shares of the company.

**6. BROWN MADONNA PRESS, INC.**

Estate of the late Antonio L. Cabangon owns 20% of the total shares of Brown Madonna Press, Inc. The other shares, are owned by T. Anthony C. Cabangon, D. Antoinette C. Cabangon, D. Adrian C. Cabangon, and D. Analyn C. Cabangon, who represents 20% of the total shares each.

**7. CITYSTATE TOWER HOTEL, INC.**

The Bank leases its Mabini branch from Citystate Tower Hotel, Inc., the Cabangon Family owns 55% of the company's total shares, while Siy family owns 30% and Bote family owns 15% of the total shares.

**8. ETERNAL GARDENS MEMORIAL PARK CORPORATION**

This company has an existing loan secured by Real Estate Mortgage which will mature on December 30, 2030.

Estate of the late Antonio L. Cabangon Chua owns 10% of the shares of Eternal Garden Memorial Park Corporation. The following are related to him by first degree of consanguinity, J. Wilfredo A. Cabangon, D. Alfred a Cabangon, D. Edward A. Cabangon, D. Edgard A. Cabangon, and D. Antoinette C. Cabangon, each owns 10% of the total shares.

**9. ETERNAL GARDENS MEMORIAL PARK CORPORATION-BATANGAS**

The Bank leases its Sta. Rosa Branch from Eternal Gardens Memorial Park Corporation-Batangas, estate of the late Antonio L. Cabangon-Chua owns 10% of the company's total shares. The following are related to him by first degree of consanguinity, D. Edgard A. Cabangon, T. Anthony C. Cabangon, D. Antoinette C. Jacinto, J. Wilfredo A. Cabangon, D. Alfred A. Cabangon and D. Edward A. Cabangon, each owns 10% of the total shares.

**10. FILIPINAS PAWNSHOP, INC.**

The Bank leases its Paco and Guadalupe branch from Filipinas Pawnshop, Inc. estate of the late Antonio L. Cabangon Chua owns 30% of the company's total shares.

**11. FORTUNE LIFE INSURANCE COMPANY, INC.**

Fortune Life Insurance Corporation is a stockholder of the Bank, with an aggregate share of 10.3%. D. Arnold A. Cabangon is the President of the company. The Bank leases its Palawan and Urdaneta branches from Fortune Life

Insurance Co., Inc., estate of the late Antonio L. Cabangon-Chua owns 35.16% of the company's total shares.

### **Subsidiaries and Affiliates**

The Bank has a number of affiliated or sister companies, most of which belong to ALC Group of Companies.

For some of its products and services, the Bank has tie-ups and has established working relationships with its affiliated and sister companies that provide its customers with discounts and free services from these companies.

#### Affiliates and Sister Companies:

1. AAA Southeast Equities, Inc.
2. ALC Realty Development Corporation
3. ALC Industrial and Commercial Development Corporation
4. ALC Fortune Corporation
5. Aliw Broadcasting Corporation
6. Aliw Publishing House, Inc.
7. Brown Madonna Publishing, Inc.
8. Citystate Tower Hotel, Inc.
9. Eternal Group of Companies
10. Filipinas Pawnshop, Inc.
11. Fortune Insurance Group of Companies
12. Fortune Medicare, Inc.
13. Gencars, Inc.
14. Top Ventures Investments & Management
15. AMB. ALC Holdings & Management Corporation

## **PART IV – CORPORATE GOVERNANCE**

The Bank has adopted the SEC Corporate Governance Self Rating Form to evaluate the level of compliance of the Bank with its Manual on Corporate Governance. In addition, the Compliance Officer reviews on a periodic basis the level of compliance of its directors, officers and employees with the leading practices and principles on good corporate governance as embodied in the Bank's Manual.

There have been no violations of the Corporate Governance Manual and no director, officer or employee has been sanctioned.

The Bank will regularly conduct a review of the Manual on Corporate Governance and will adopt appropriate changes as necessary.

Please refer to the attached *Annual Corporate Governance Report*.

## **PART V - EXHIBITS AND SCHEDULES**

### **ITEM 13. EXHIBITS AND REPORTS ON SEC FORM 17-C**

a. Exhibits

Annex I - Audited Financial Statements conducted by Punongbayan and Araullo, incorporated by reference in ITEM 7, Part II of this report.

Schedule I - Schedule of Accounts Receivable with Related Parties

Schedule II - Schedule of Accounts Payable with Related Parties

Schedule III - Map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates

b. Reports on SEC Form 17-C

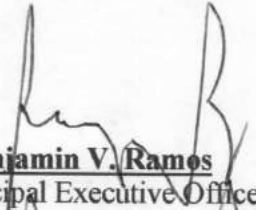
1. Election of Mr. Benjamin V. Ramos as Citystate Savings Bank, Inc. Regular Director and Schedule of Annual Stockholders' Meeting
2. Optional retirement of Atty. Rey D. Delfin as President and Director of the Bank
3. Election of Mr. Benjamin V. Ramos as Citystate Savings Bank, Inc. President
4. Balance Sheet as of March 31, 2015
5. Results of the Annual Stockholders' Meeting
6. Retirement of Eduardo O. Olavario as Chief Financial Officer of the Bank
7. Certificate of Qualification for Independent Directors
8. Resignation of Mr. Andres Y. Narvasa, Jr. as Bank's Director
9. Balance Sheet as of June 30, 2015
10. Opening of Puerto Princesa City Branch
11. Resignation of Ruel L. Angga, Compliance Officer and Runald F. Ledda, Deputy Trust Officer
12. Appointment of Punongbayan & Araullo as External Auditor of the Bank
13. Election of Mr. Wilfredo S. Madarang, Jr. as an Independent Director of the Bank and as Member of Risk Oversight and Corporate Governance Committees
14. Opening of Sta. Rosa City Branch
15. Certificate of Qualification for Independent Director Wilfredo S. Madarang, Jr.
16. Certificate of Attendance on Corporate Governance Seminar of the bank's Board of Directors and key officers
17. Appointment of Mr. Wilfredo S. Madarang, Jr. an Independent Director, as a Member of Audit Committee
18. Amendment of By-laws and Articles of Incorporation of Citystate Savings Bank, Inc.

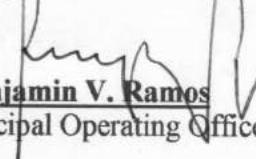


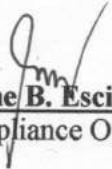
*SIGNATURES*

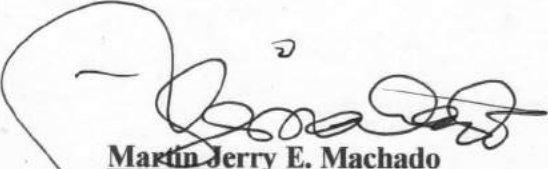
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on April 28, 2016

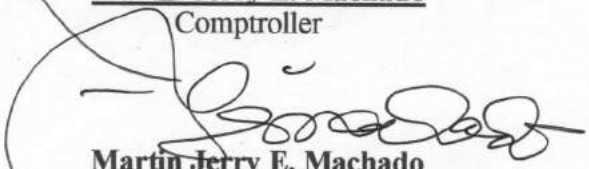
By:

  
Benjamin V. Ramos  
Principal Executive Officer

  
Benjamin V. Ramos  
Principal Operating Officer

  
Irish Janne B. Escio  
Chief Compliance Officer

  
Martin Jerry E. Machado  
Comptroller

  
Martin Jerry E. Machado  
Financial Officer/Accounting Officer

  
Atty. Socrates M. Arevalo  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this 28 APR 2016 affiant(s) exhibiting to me his/her Social Security System Number, as follows:

**NAMES**

**SOCIAL SECURITY SYSTEM NO.**

Benjamin V. Ramos  
Martin Jerry E. Machado  
Irish Janne B. Escio  
Atty. Socrates M. Arevalo

03-7460820-6  
33-2211146-7  
05-0945088-9  
03-6715828-4

**Notary Public**

JOEL C. BANTASAN

Notary Public for Pasig, Pateros, Taguig and San Juan, Philippines  
Commission No. 78(2016-2017)  
Commission Expires December 31, 2017  
PTR No. 2185450, issued January 06, 2016, Quezon City  
IBP Lifetime Membership No. 013170  
Roll No. 56492, released April 30, 2009  
MCLE Compliance No. IV-0023043/December 16, 2013/Quezon City  
(5th MCLE Compliance (24 Units/Dec. 07, 2013)  
2/F Citystate Centre Building  
709 Shaw Boulevard, Pasig City

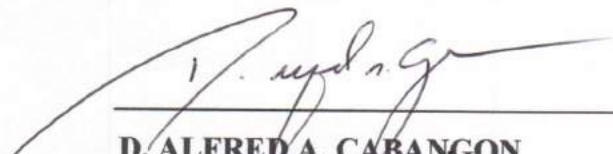
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Book No. 4 :  
Series of 2016

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Management of **Citystate Savings Bank, Inc.** is responsible for the preparation and fair presentation of the financial statements for the year ended **December 31, 2015 and 2014**, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and the implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

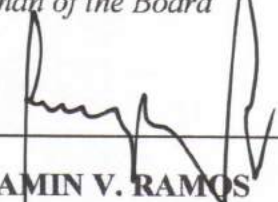
The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the stockholders or members.

**Punongbayan and Araullo**, the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to stockholders or members, has expressed opinion on the fairness of presentation upon completion of such examination.



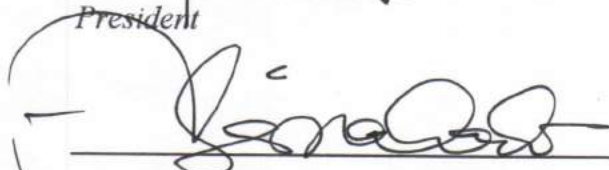
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**D. ALFRED A. CABANGON**  
*Chairman of the Board*



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**BENJAMIN V. RAMOS**  
*President*



---

**MARTIN JERRY E. MACHADO**  
*Chief Financial Officer*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS (page 2)

SUBSCRIBED AND SWORN to before me on APR 25 2016 at Pasig City,  
affiants exhibiting to me:

NAME	SOCIAL SECURITY SYSTEM NO.
D. Alfred A. Cabangon	03-9540210-6
Benjamin V. Ramos	03-7460820-6
Martin Jerry E. Machado	33-2211146-7

  
MARIA TERESA E. PATULA  
Notary Public  
Serial No. of Commission 1598  
Commission expires on 12-31-16  
Roll of Attorney's No. 53971  
IBP No. 102912 PTR No. 2209624

Doc. No. 391;  
Page No. 10;  
Book No. 32;  
Series of 2016.



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Financial Statements and  
Independent Auditors' Report

**Citystate Savings Bank, Inc.**

December 31, 2015, 2014 and 2013



**P&A**  
**Grant Thornton**

An instinct for growth™

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The Enterprise Center  
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Philippines

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## Report of Independent Auditors

**The Board of Directors and the Stockholders**  
**Citystate Savings Bank, Inc.**  
2nd Floor, Citystate Centre  
709 Shaw Boulevard, Pasig City



### Report on the Financial Statements

We have audited the accompanying financial statements of Citystate Savings Bank, Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4



*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Citystate Savings Bank, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2015 required by the Bureau of Internal Revenue as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

By:   
Partner

CPA Reg. No. 0090741

TIN 109-228-427

PTR No. 5321729, January 4, 2016, Makati City

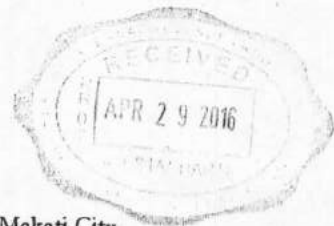
SEC Group A Accreditation

Partner - No. 0395-AR-2 (until Apr. 30, 2016)

Firm - No. 0002-FR-4 (until Apr. 30, 2018)

BIR AN 08-002511-19-2015 (until Mar. 18, 2018)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)



April 26, 2016

**CITYSTATE SAVINGS BANK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**  
*(Amounts in Philippine Pesos)*



	Notes	2015	2014
<b><u>R E S O U R C E S</u></b>			
CASH AND OTHER CASH ITEMS	2	P 99,154,882	P 152,246,760
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	1,118,494,957	1,037,862,022
DUE FROM OTHER BANKS	8	210,773,710	220,538,904
AVAILABLE-FOR-SALE SECURITIES	9	424,194,665	87,226,323
LOANS AND RECEIVABLES - Net	10	2,496,398,635	2,130,815,636
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	224,500,601	225,147,757
INVESTMENT PROPERTIES - Net	12	27,227,394	22,481,257
OTHER RESOURCES - Net	13	270,523,132	315,800,106
<b>TOTAL RESOURCES</b>		<b>P 4,871,267,976</b>	<b>P 4,192,118,765</b>
<b><u>L I A B I L I T I E S A N D E Q U I T Y</u></b>			
<b>DEPOSIT LIABILITIES</b>			
Demand		P 531,012,854	P 301,591,137
Savings		3,253,885,651	2,688,820,124
Time		358,678,563	406,398,497
Total Deposit Liabilities		4,143,577,068	3,396,809,758
<b>OTHER LIABILITIES</b>	15	118,214,324	104,180,513
Total Liabilities		4,261,791,392	3,500,990,271
<b>EQUITY</b>	16	609,476,584	691,128,494
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 4,871,267,976</b>	<b>P 4,192,118,765</b>



*See Notes to Financial Statements.*



**CITYSTATE SAVINGS BANK, INC.**  
**STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	Notes	2015	2014	2013
<b>INTEREST INCOME</b>				
Loans and receivables	10	P 173,419,493	P 201,449,274	P 240,257,936
Due from Banko Sentral ng Pilipinas and other banks	7, 8	21,320,619	15,356,728	8,574,990
Available-for-sale securities	9	7,476,081	4,806,174	3,433,888
		<u>202,216,193</u>	<u>221,612,176</u>	<u>252,266,814</u>
<b>INTEREST EXPENSE</b>				
Deposit liabilities	14	40,484,198	29,728,494	27,207,879
Others		-	1,691	239,774
		<u>40,484,198</u>	<u>29,730,185</u>	<u>27,447,653</u>
<b>NET INTEREST INCOME</b>		<b>161,731,995</b>	<b>191,881,991</b>	<b>224,819,161</b>
<b>IMPAIRMENT LOSSES (RECOVERIES) - Net</b>	10, 13	<b>( 13,786,273 )</b>	<b>27,072,490</b>	<b>228,149</b>
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES (RECOVERIES)</b>		<b>175,518,268</b>	<b>164,809,501</b>	<b>224,591,012</b>
<b>OTHER OPERATING INCOME (LOSS)</b>				
Service charges and fees	2	18,097,071	17,499,146	16,655,356
Miscellaneous	17	24,256,026	44,917,540	51,385,204
		<u>42,353,097</u>	<u>62,416,686</u>	<u>68,040,560</u>
<b>OTHER OPERATING EXPENSES</b>				
Salaries and employee benefit expense	18	99,864,930	106,833,959	100,211,569
Security, janitorial and messengerial services		37,465,355	32,546,262	30,859,408
Depreciation and amortization	11, 12, 13	31,096,712	19,696,815	15,397,496
Occupancy	24	29,600,007	28,166,835	27,795,714
Communication, light and water		24,710,447	27,782,098	24,764,326
Taxes and licenses	26	17,546,215	16,010,345	15,074,270
Insurance		15,756,861	14,639,209	14,856,969
Fuel and oil		10,409,975	11,006,058	10,292,167
Repairs and maintenance		3,263,590	3,482,882	4,853,944
Litigation and asset acquired expenses	12	1,639,827	5,340,584	5,687,774
Miscellaneous	17	26,942,086	26,695,371	25,342,261
		<u>298,296,005</u>	<u>292,200,418</u>	<u>275,135,898</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>( 80,424,640 )</b>	<b>( 64,974,231 )</b>	<b>17,495,674</b>
<b>TAX EXPENSE</b>	19	<b>6,229,647</b>	<b>6,069,266</b>	<b>17,166,734</b>
<b>NET PROFIT (LOSS)</b>		<b>( P 86,654,287 )</b>	<b>( P 71,043,497 )</b>	<b>P 328,940</b>
<b>Earnings (Losses) Per Share – Basic and Diluted</b>				
	22	<b>( P 1.19 )</b>	<b>( P 0.98 )</b>	<b>P 0.00</b>

*See Notes to Financial Statements.*

CITYSTATE SAVINGS BANK, INC.  
 STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013  
 (Amounts in Philippine Pesos)

	Notes	2015	2014	2013
<b>NET PROFIT (LOSS)</b>		<b>( P 86,654,287 )</b>	<b>( P 71,043,497 )</b>	<b>P 328,940</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<b>Item that will not be reclassified subsequently to profit or loss</b>				
Remeasurements of defined benefit post-employment plan	18	2,996,675	3,940,141	( 3,470,458 )
Tax income (expense)	19	( 899,003 )	( 1,182,042 )	1,041,137
		2,097,672	2,758,099	( 2,429,321 )
<b>Item that will be reclassified to profit or loss</b>				
Fair valuation of available-for-sale securities				
Fair value gains (losses) during the year	9	3,461,935	( 1,115,977 )	( 2,616,050 )
Tax income (expense)	19	( 557,230 )	-	397,944
		2,904,705	( 1,115,977 )	( 2,218,106 )
<b>Total Other Comprehensive Income (Loss) - net of tax</b>		<b>5,002,377</b>	<b>1,642,122</b>	<b>( 4,647,427 )</b>
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>( P 81,651,910 )</b>	<b>( P 69,401,375 )</b>	<b>( P 4,318,487 )</b>

*See Notes to Financial Statements.*

**CITYSTATE SAVINGS BANK, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Surplus Reserves	Retained Earnings (Deficit)	Total
Balance as of January 1, 2015		P 727,649,980	P 2,222,444	P 4,287,235	P 813,500	( P 43,844,665 )	P 691,128,494
Transfer to reserves	20	-	-	-	256,424	( 256,424 )	-
Total comprehensive income (loss) for the year	16	-	-	5,002,377	-	( 86,654,287 )	( 81,651,910 )
Balance as of December 31, 2015	16	<u>P 727,649,980</u>	<u>P 2,222,444</u>	<u>P 9,289,612</u>	<u>P 1,069,924</u>	<u>( P 130,755,376 )</u>	<u>P 609,476,584</u>
Balance as of January 1, 2014		P 727,649,980	P 2,222,444	P 2,645,113	P 667,914	P 27,344,418	P 760,529,869
Transfer to reserves	20	-	-	-	145,586	( 145,586 )	-
Total comprehensive income (loss) for the year	16	-	-	1,642,122	-	( 71,043,497 )	( 69,401,375 )
Balance as of December 31, 2014	16	<u>P 727,649,980</u>	<u>P 2,222,444</u>	<u>P 4,287,235</u>	<u>P 813,500</u>	<u>( P 43,844,665 )</u>	<u>P 691,128,494</u>
Balance as of January 1, 2013		P 727,649,980	P 2,222,444	P 7,292,540	P 507,697	P 27,175,695	P 764,848,356
Transfer to reserves	20	-	-	-	160,217	( 160,217 )	-
Total comprehensive income (loss) for the year	16	-	-	( 4,647,427 )	-	328,940	( 4,318,487 )
Balance as of December 31, 2013	16	<u>P 727,649,980</u>	<u>P 2,222,444</u>	<u>P 2,645,113</u>	<u>P 667,914</u>	<u>P 27,344,418</u>	<u>P 760,529,869</u>

*See Notes to Financial Statements.*

**CITYSTATE SAVINGS BANK, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	Notes	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 80,424,640 )	( P 64,974,231 )	P 17,495,674
Adjustments for:				
Interest income	7, 8, 9, 10	( 202,216,193 )	( 221,612,176 )	( 252,266,814 )
Interest expense	14	40,484,198	29,730,185	27,447,653
Depreciation and amortization	11, 12, 13	31,096,712	19,696,815	15,397,496
Impairment losses (recoveries) - net	10, 13	( 13,786,273 )	27,072,490	228,149
Gains from assets acquired/exchanged	17	( 384,976 )	( 2,975,246 )	( 33,537,450 )
Loss (gain) on sale/retirement of bank premises	17	51,214	( 25,563,500 )	63,263
Unrealized foreign currency exchange losses (gains)	17	( 216,862 )	172,566	( 545,319 )
Operating loss before working capital changes		( 225,396,820 )	( 238,453,097 )	( 225,717,348 )
Increase in loans and receivables		( 285,383,842 )	( 41,884,966 )	( 29,902,384 )
Decrease (increase) in investment properties		( 5,856,905 )	5,748,513	53,194,002
Decrease (increase) in other resources		15,207,678	( 110,415,508 )	( 144,080,038 )
Increase in deposit liabilities		743,592,888	717,172,014	630,619,884
Increase (decrease) in other liabilities		19,901,769	36,550,690	( 8,268,393 )
Cash generated from operations		262,064,768	368,717,646	275,845,723
Interest received		196,948,077	234,226,350	252,327,035
Interest paid		( 38,510,077 )	( 29,690,007 )	( 27,536,342 )
Cash paid for income taxes		( 8,799,632 )	( 5,641,981 )	( 5,869,103 )
Net Cash From Operating Activities		411,703,136	567,612,008	494,767,313
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of bank premises, furniture, fixtures and equipment	11	( 23,319,796 )	( 76,059,644 )	( 46,349,972 )
Acquisitions of computer software	13	-	( 20,378,813 )	-
Proceeds from maturity of available-for-sale securities	9	15,885,716	6,650,000	4,000,000
Acquisitions of available-for-sale securities		( 349,261,514 )	-	-
Net Cash Used in Investing Activities		( 356,695,594 )	( 89,788,457 )	( 42,349,972 )
<b>Effect of Foreign Currency Exchange Rate Changes in Cash and Cash Equivalents</b>		216,862	( 172,566 )	545,319
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		55,224,404	477,650,985	452,962,660
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
Cash and other cash items		152,246,760	127,556,153	122,574,664
Due from Bangko Sentral ng Pilipinas	7	1,037,862,022	602,895,583	225,855,077
Due from other banks	25	164,994,587	147,000,648	76,059,983
		1,355,103,369	877,452,384	424,489,724
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
Cash and other cash items		99,154,882	152,246,760	127,556,153
Due from Bangko Sentral ng Pilipinas	7	1,118,494,957	1,037,862,022	602,895,583
Due from other banks	25	192,677,934	164,994,587	147,000,648
		P 1,410,327,773	P 1,355,103,369	P 877,452,384

*See Notes to Financial Statements.*

**CITYSTATE SAVINGS BANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

***1.1 Incorporation and Operations***

Citystate Savings Bank, Inc. (the Bank) was incorporated in the Philippines on May 20, 1997. The Bank obtained a thrift bank license from the Bangko Sentral ng Pilipinas (BSP) on August 7, 1997 and started operations on August 8, 1997.

The Bank's common shares were listed in the Philippine Stock Exchange (PSE) on November 28, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi-banking functions. On July 13, 2006, the Bank was granted license to operate foreign currency deposit unit (FCDU) and trust function. The Bank's FCDU started operations in November 2006, while its trust operations started in February 2007. At the end of 2015, the Bank has 30 branches and 30 on-site and five off-site automated teller machines (ATMs) strategically located in key cities and municipalities within Metro Manila and provincial areas.

The Bank's operations includes commercial banking, retail banking and treasury services, however management does not view the Bank's business operations, activities and components separately but rather they view the Bank as a whole. Accordingly, no business segment information is presented in its financial statements.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered address, which is also its principal place of business, is located at 2nd Floor, Citystate Centre, 709 Shaw Boulevard, Pasig City.

***1.2 Approval of Financial Statements***

The financial statements of the Bank as of and for the year ended December 31, 2015 (including the comparative financial statements as of December 31, 2014 and for the years ended December 31, 2014 and 2013) were authorized for issue by the Bank's Board of Directors (BOD) on April 26, 2016.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 *Basis of Preparation of Financial Statements*

#### (a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are issued by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### (b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses in two statements: a “statement of profit or loss” and a “statement of comprehensive income”.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

#### (c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank’s functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates (see Note 2.14).

## 2.2 Adoption of New and Amended PFRS

### (a) Effective in 2015 that are Relevant to the Bank

The Bank adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after July 1, 2014, for its annual reporting period beginning January 1, 2015:

PAS 19 (Amendment)	:	Employee Benefits: Defined Benefits Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amendment and improvements.

- (i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Bank's financial statements since the Bank's defined benefit plan does not require employees or third parties to contribute to the benefit plan.
- (ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify the existing requirements:

#### *Annual Improvements to PFRS (2010-2012 Cycle)*

- PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.
- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32, *Financial Instruments: Presentation*.
- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40 or a business combination in accordance with PFRS 3.

(a) *Effective in 2015 but not Relevant to the Bank*

The following annual improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2014 but are not relevant to the Bank's financial statements:

PFRS (2010-2012 Cycle)

- PFRS 2 (Amendment) : Share-based Payment – Definition of Vesting Condition
- PFRS 3 (Amendment) : Business Combinations – Accounting for Contingent Consideration in a Business Combination

PFRS (2011-2013 Cycle)

- PFRS 3 (Amendment) : Business Combinations – Scope Exceptions for Joint Ventures



(b) *Effective Subsequent to 2015 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (ii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

- (iv) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e. January 1, 2016), indefinitely.
- (v) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Bank does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (vi) Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Bank but management does not expect these to have material impact on the Bank's financial statements:
- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.
  - PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
  - PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

### **2.3 Financial Assets**

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32. All other non-derivative financial instruments are treated as debt instruments.

#### *(a) Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets currently relevant to the Bank is as follows:

#### *(i) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables and Security deposits (under Other Resources account) in the statement of financial position. Cash and cash equivalents comprise accounts with maturities of three months or less, including cash and non-restricted balances with the BSP and amounts due from other banks. For statement of cash flows purposes, cash and cash equivalents include cash and other cash items, due from BSP and due from other banks that are unrestricted and readily-available for use in the Bank's operations and are subject to insignificant risk of change in value (see Note 25).

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

*(ii) AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS financial assets include equity securities and government debt securities, corporate bonds and proprietary club shares.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

*(b) Impairment of Financial Assets*

The Bank assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the Bank granting the borrower, for economic or legal reasons relating to the borrower's difficulty, a concession that the lender would not otherwise consider; *(iv)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(v)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(vi)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Bank recognizes impairment loss based on the category of financial assets as follows:

*(i) Carried at Amortized Cost – Loans and Receivables*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is an objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the established future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less cost of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When possible, the Bank seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for new loan conditions. Once the terms have been renegotiated and satisfactory track record of payment of principal and/or interest is achieved, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded carrying amount of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses (Recoveries) account in profit or loss.

When a loan is determined to be uncollectible, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

*(ii) Carried at Cost – AFS Financial Assets*

If there is objective evidence of impairment for any of the unquoted equity instruments that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and required to be settled by delivery of such an unquoted equity instrument, impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

*(iii) Carried at Fair Value – AFS Financial Assets*

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, excluding impairment losses which is presented as a separate line item in the statement of profit or loss relating to financial assets that are recognized in profit or loss are presented as part of Interest Income or Interest Expense account in the statement of profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

**2.4 *Bank Premises, Furniture, Fixtures and Equipment***

Land is stated at cost less impairment losses, if any. All other items of bank premises, furniture, fixtures and equipment are carried at acquisition cost less subsequent depreciation, amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	50 years
Office furniture, fixtures and equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).



The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment, are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment including the related accumulated depreciation, amortization and any impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

## ***2.5 Investment Properties***

Investment properties include land and buildings acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held either to earn rental income or for capital appreciation or for both, but not held for sale in the next twelve months or used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.15). The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance or bid price, which should not be higher than the appraised value of the property.

Building and building improvements included under investment properties have estimated useful life of ten years and are depreciated using the straight-line basis.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are charged to profit or loss in the period in which these costs are incurred.

Investment properties including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss under the caption Miscellaneous under the Other Operating Income account in the year of retirement or disposal.

## ***2.6 Assets Held-for-Sale***

Assets held-for-sale pertain to transportation equipment and real and other properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan.

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

Assets that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss.

The gain or loss arising from the sale or remeasurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain from assets acquired/exchanged under Miscellaneous Income or Loss on sale of acquired assets under Miscellaneous Expense in the statement of profit or loss.

## ***2.7 Intangible Assets***

Intangible assets include acquired branch license and computer software used in operations and administration which are accounted for under the cost model and reported under the Other Resources account in the statement of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired branch license is classified as intangible assets with indefinite useful life; hence, is not subject to amortization but would require an annual test for impairment (see Note 2.15). Branch license is subsequently carried at cost less accumulated impairment losses, if any.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

The costs of any internally generated software development are recognized as intangible assets. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.15. Amortization commences upon completion of the asset.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as these intangible assets are considered finite.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

### ***2.8 Other Resources***

Other resources pertain to other assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

### ***2.9 Financial Liabilities***

Financial liabilities, which include deposit liabilities and other liabilities (except for income tax payable, post-employment benefit obligation and other tax-related liabilities) are recognized when the Bank becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at their fair values and subsequently measured at amortized costs using effective interest method for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liability are recognized as Interest Expense in the statement of profit or loss.

Prior to 2015, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank, subject to the approval of the BSP. In 2015, BSP approval is no longer necessary on dividend recognition in accordance with the liberalized rules for banks and quasi-banks on dividend declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***2.10 Offsetting Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

### ***2.11 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

## ***2.12 Revenue and Expense Recognition***

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and, the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue and expense is recognized:

- (a) *Interest income and expense* – are recognized in profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- (b) *Service charges and fees* – are generally recognized on an accrual basis when the service has been provided. Fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of debt instruments or other securities, are recognized on completion of the underlying transaction. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

- (c) *Gains from assets acquired/exchanged* – are recognized in profit or loss (as part of Miscellaneous under Other Operating Income) when the risks and rewards of the assets are transferred to the buyer or when the collectability of the entire sales price is reasonably assured.
- (d) *Rental income* – is accounted for on a straight-line basis over the lease terms on operating leases and is recorded in profit or loss as part of Miscellaneous under the Other Operating Income account. Rental income is generally earned from lease of investment property.
- (e) *Penalties on loans*, presented as part of Miscellaneous Income, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility.
- (f) *Dividend income* is recognized when the Bank's right to receive payment is established. Dividend income is included as part of Other Operating Income in the statement of profit or loss.

Costs and expenses are recognized in profit or loss upon utilization of the goods or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.16).

### **2.13 Leases**

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) *Bank as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

- (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
- (d) there is a substantial change to the asset.

#### ***2.14 Foreign Currency Transactions and Translation***

The accounting records of the Bank are maintained in Philippine pesos, except for the FCDU, which is maintained in United States (US) dollars. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

The financial statements of the FCDU of the Bank, which are expressed in US dollars as its functional currency, are translated using the closing rates for statement of financial position accounts and weighted average rates for statement of profit or loss and statement of comprehensive income accounts.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS financial assets are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

#### ***2.15 Impairment of Non-financial Assets***

The Bank's premises, furniture, fixtures and equipment, investment properties, intangible assets and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested for impairment either individually or at the cash-generating unit level. Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## ***2.16 Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

## ***2.17 Employee Benefits***

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

### ***(a) Post-employment Defined Benefit Plan***

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by the Bank's Trust Department.

The liability recognized in the statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefits payments using a discount rate derived from the interest rates of a zero coupon government bond as published by the Philippine Dealing & Exchange Corp. (PDEX), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Miscellaneous account in the statement of profit or loss. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

*(b) Post-employment Defined Contribution Plans*

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into an independent entity. Under this plan, the Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

*(d) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

**2.18 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred and current taxes not recognized in other comprehensive income or directly in equity, if any.



Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

### ***2.19 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of an entity that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded post-employment benefit plan for its employees.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

### ***2.20 Equity***

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise of the following:

- (a) Net unrealized fair value gain arising from the marked-to-market valuation of AFS securities.
- (b) Remeasurements of defined benefit post-employment plan based on the accumulated balances of actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions used in the determination of defined benefit obligation, and actual return on plan assets (excluding amount included in net interest).

Surplus reserve pertains to a portion of the Bank's income from trust operations set-up on a yearly basis in compliance with BSP regulations.

Retained earnings (deficit) represent all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amount of dividends declared, if any.

### ***2.21 Earnings (Losses) Per Share***

Basic earnings (losses) per share is computed by dividing net profit attributable to the equity holders of the Bank by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the reporting period.

Diluted earnings (losses) per share is computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period assuming the conversion of potentially dilutive shares.

Currently, the Bank does not have potentially dilutive preferred shares outstanding; hence, the dilutive earnings (loss) per share is equal to the basic earnings (loss) per share.

### ***2.22 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

#### *3.1 Critical Management Judgments in Applying Accounting Policies*

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

##### *(a) Impairment of AFS Securities*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that those assets are not permanently impaired as of December 31, 2015 and 2014. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

##### *(b) Distinguishing Investment Properties and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in its banking operations.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in its banking operation and services or for administrative purposes. If a portion can be sold separately (or leased out separately under finance lease), the Bank accounts for the portion separately. If a portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in its banking operation or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) *Distinguishing Operating and Finance Leases*

The Bank has entered into various lease agreements as a lessee or lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management assessed that all of its existing lease arrangements qualify as operating leases.

(d) *Classifying and Determining Fair Value of Acquired Properties*

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as assets held for sale included as part of Non-financial assets under the Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodologies in determining the fair value of acquired properties are further discussed in Note 6.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures on those provisions and contingencies are presented in Note 24. In dealing with the Bank's various legal proceedings, the Bank's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and external legal counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results. Although the Bank does not believe that its on-going legal proceeding will have a material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimating Impairment Losses on Loans and Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Bank's relationship with the borrowers, the borrowers' current credit status, average age of accounts, value of the collaterals, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 10.

(b) *Determining Fair Value Measurement for AFS Securities*

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets would affect profit or loss and other comprehensive income.

The carrying amount of the Bank's AFS securities and the changes in the fair value recognized on those financial assets are shown in Note 9.

(c) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties Except Land, and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures, and equipment, investment properties, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of those assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are presented in Notes 11 and 12, respectively, while the carrying amount of computer software is presented in Note 13. Based on management's assessment as at December 31, 2015 and 2014, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Fair Value Measurement for Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings acquired from defaulting borrowers and are not held for sale within the next twelve months from the end of reporting period. The estimated fair values of these assets, as disclosed in Notes 6 and 12, are determined by in-house and independent appraisers applying the relevant valuation methodologies as described therein.

For investment properties with appraisal conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of the fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the carrying amount of deferred tax assets recognized in the statements of financial position as disclosed in Note 19 can be utilized in the coming years or within their prescriptive period.

(f) *Estimating Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, which are tested for impairment at least annually, PFRS requires that an impairment review be performed when certain impairment indications are present. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse effect on the Bank's results of operations.

Based on management's assessment, certain non-financial assets related to jewelry items were found impaired as of December 31, 2015 and 2014; hence, adequate amounts of allowance for impairment loss have been recognized, as discussed in Note 13.1.

(g) *Valuation of Post-employment Defined Benefit Plan*

The determination of the amounts of post-employment benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the effect of the changes in the assumptions used in estimating such obligation are presented in Note 18.2.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at a fixed rate, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also trades financial instruments where it takes positions in traded and over-the-counter instruments, to take advantage of short-term market movements in equities and bonds.

The Bank's Risk Management Committee (RMC) has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. The Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. It provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, liquidity risk, foreign exchange risk, and investment of excess liquidity.

##### **4.1 Credit Risk**

Credit risk is the risk that the counterparty in a transaction may default in payments and it arises from lending, treasury, and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the Accounts Management Department (AMD), which undertakes several functions with respect to credit risk management. Impairment provisions are provided for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in the health of a particular industry segments that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the end of the reporting period. Management, therefore, carefully manages its exposure to credit risk.

The AMD undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The AMD performs risk ratings for corporate accounts and risk scoring for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The AMD is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The AMD also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The AMD reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Loan classification is an integral part of the Bank's management of credit risk. On a quarterly basis, loans are reviewed, classified and rated based on internal and external factors that affect their performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

Generally, accounts are classified by the Bank based on the loan credit quality as follows:

(a) *Unclassified*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) *Loans Especially Mentioned (LEM)*

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.



A credit may also be classified as LEM if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(c) *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(d) *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(e) *Loss*

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

These loan classifications are also used by the Bank as inputs and basis in determining the impairment losses as described in Note 2.3.

**4.1.1 Exposure to Credit Risk**

The carrying amount of financial assets recognized in the financial statements, represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained and allowance for impairment recognized. The table below shows the credit quality by class of financial assets as of December 31, 2015.

	Neither Past Due nor Specifically Impaired		Past Due Individually Impaired	Total
	High Grade	Standard Grade		
Cash and other cash items	P 99,154,882	P -	P -	P 99,154,882
Due from BSP	1,118,494,957	-	-	1,118,494,957
Due from other banks	210,773,710	-	-	210,773,710
AFS securities	301,716,495	-	-	301,716,495
Loans and receivables	2,408,106,257	-	133,086,810	2,541,193,067
Other resources	11,076,773	-	-	11,076,773
	<b><u>P4,149,323,074</u></b>	<b><u>P -</u></b>	<b><u>P 133,086,810</u></b>	<b><u>P 4,282,409,884</u></b>

The credit quality by class of financial assets as of December 31, 2014 follows:

	Neither Past Due nor Specifically Impaired		Past Due Individually Impaired	Total
	High Grade	Standard Grade		
Cash and other cash items	P 152,246,760	P -	P -	P 152,246,760
Due from BSP	1,037,862,022	-	-	1,037,862,022
Due from other banks	220,538,904	-	-	220,538,904
AFS securities	72,156,323	-	-	72,156,323
Loans and receivables	2,074,044,674	-	107,147,016	2,181,191,690
Other resources	<u>10,196,622</u>	<u>-</u>	<u>-</u>	<u>10,196,622</u>
	<u>P3,567,045,305</u>	<u>P -</u>	<u>P 107,147,016</u>	<u>P3,674,192,321</u>

The Bank is able to manage the credit risk arising from its deposits with other banks as the banks where these deposits are made have high reputation and good credit standing. Moreover, due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution, as provided for under RS 9576, *Amendment to Charter of PDIC*.

The Due from BSP account represents the aggregate balance of interest-bearing and noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims; hence, no significant credit risk is anticipated for this account.

AFS securities exposed to credit risk as of December 31, 2015 and 2014 pertain to quoted and unquoted government securities (see Note 9).

The Bank holds collateral against loans and receivables in the form of mortgage interests over property, other registered securities over assets and guarantees. An estimate of the fair value of collateral and other security enhancements held against loans and receivables is shown below.

	<u>2015</u>	<u>2014</u>
Against past due and impaired – Properties	<b>P 278,551,070</b>	P 224,259,008
Against neither past due nor impaired:		
Properties	<b>1,003,040,596</b>	932,002,439
Hold-out deposits	<b>1,018,938,990</b>	1,011,467,692
Jewelries	<u><b>222,998,618</b></u>	<u>307,512,555</u>
	<u><b>P2,523,529,274</b></u>	<u>P2,475,241,694</u>

**4.1.2 Concentration of Credit Risk**

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk at the end of the reporting period is shown below.

	<b>Due from BSP and Other Banks</b>	<b>Loans and Receivables</b>	<b>AFS Securities</b>
<b><u>December 31, 2015</u></b>			
Financial intermediaries	P 1,428,423,549	P 721,200,000	P -
Other community, social and personal activities	-	1,116,860,540	-
Consumption	-	329,024,660	-
Real estate, renting and other related activities	-	268,303,922	-
Wholesale and retail trade	-	77,864,434	-
Agriculture, fishing and forestry	-	2,000,000	-
Manufacturing (various industries)	-	1,991,833	-
Others	-	43,947,678	301,716,495
	<b><u>P 1,428,423,549</u></b>	<b><u>P 2,541,193,067</u></b>	<b><u>P 301,716,495</u></b>
<b><u>December 31, 2014</u></b>			
Financial intermediaries	P 1,258,400,926	P 701,993,762	P -
Other community, social and personal activities	-	714,765,784	-
Consumption	-	398,755,282	-
Real estate, renting and other related activities	-	276,436,477	-
Wholesale and retail trade	-	26,154,466	-
Manufacturing (various industries)	-	3,434,012	-
Agriculture, fishing and forestry	-	1,846,380	-
Others	-	37,805,527	72,156,323
	<b><u>P 1,258,400,926</u></b>	<b><u>P 2,181,191,690</u></b>	<b><u>P 72,156,323</u></b>

## 4.2 Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure that short-term funding requirements are met. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity profile of resources, liabilities and off-statement of financial position items as of December 31, 2015 and 2014 in accordance with the account classification of the BSP, are presented below.

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
<b>December 31, 2015</b>					
Resources:					
Cash and other cash items	P 99,154,882	P -	P -	P -	P 99,154,882
Due from BSP	1,118,494,957	-	-	-	1,118,494,957
Due from other banks	198,658,851	12,114,859	-	-	210,773,710
AFS securities	106,908,170	-	106,473,588	210,812,907	424,194,665
Loans and receivables	719,878,007	863,088,013	417,730,925	495,701,690	2,496,398,635
Other resources	<u>63,106,694</u>	<u>198,553,301</u>	<u>224,500,601</u>	<u>36,153,333</u>	<u>522,313,929</u>
Total Resources	<u>2,306,201,561</u>	<u>1,073,756,173</u>	<u>748,705,114</u>	<u>742,667,930</u>	<u>4,871,330,778</u>
Liabilities and Equity:					
Deposit liabilities	3,718,208,950	178,922,332	246,445,786	-	4,143,577,068
Other liabilities	<u>118,277,602</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>118,277,602</u>
Total liabilities	<u>3,836,486,552</u>	<u>178,922,332</u>	<u>246,445,786</u>	<u>-</u>	<u>4,261,854,670</u>
Equity	<u>-</u>	<u>-</u>	<u>-</u>	<u>609,476,108</u>	<u>609,476,108</u>
Total Liabilities and Equity	<u>3,836,486,552</u>	<u>178,922,332</u>	<u>246,445,786</u>	<u>609,476,108</u>	<u>4,871,330,778</u>
On-book gap	<u>( 1,530,284,991)</u>	<u>894,833,841</u>	<u>502,259,328</u>	<u>133,191,822</u>	<u>-</u>
Cumulative on-book gap	<u>( 1,530,284,991)</u>	<u>( 635,451,150)</u>	<u>( 133,191,822)</u>	<u>-</u>	<u>-</u>
Contingent assets	21,508	-	-	-	21,508
Contingent liabilities	<u>( 379,830,106)</u>	<u>( 8,030,110)</u>	<u>( 96,949,962)</u>	<u>( 183,902,149)</u>	<u>( 668,712,327)</u>
Off-book gap	<u>( 379,808,598)</u>	<u>( 8,030,110)</u>	<u>( 96,949,962)</u>	<u>( 183,902,149)</u>	<u>( 668,690,819)</u>
Cumulative off-book gap	<u>( 379,808,598)</u>	<u>( 387,838,708)</u>	<u>( 484,788,670)</u>	<u>( 668,690,819)</u>	<u>-</u>
<b>Cumulative total gap</b>	<b><u>(P 1,910,093,598)</u></b>	<b><u>(P1,023,289,858)</u></b>	<b><u>(P 617,980,492)</u></b>	<b><u>(P 668,690,819)</u></b>	<b><u>P -</u></b>

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
<b>December 31, 2014</b>					
Resources:					
Cash and other cash items	P 152,246,760	P -	P -	P -	P 152,246,760
Due from BSP	1,037,862,022	-	-	-	1,037,862,022
Due from other banks	164,994,587	55,544,317	-	-	220,538,904
AFS securities	72,156,323	-	-	15,070,000	87,226,323
Loans and receivables	746,089,431	758,306,999	308,782,718	317,636,488	2,130,815,636
Other resources	<u>26,934,559</u>	<u>11,276,816</u>	<u>858,822</u>	<u>524,358,923</u>	<u>563,429,120</u>
Total Resources	<u>2,200,283,682</u>	<u>825,128,132</u>	<u>309,641,540</u>	<u>857,065,411</u>	<u>4,192,118,765</u>
Liabilities and Equity:					
Deposit liabilities	3,033,782,975	119,856,044	243,070,739	100,000	3,396,809,758
Other liabilities	<u>88,478,052</u>	<u>90,041</u>	<u>-</u>	<u>15,612,420</u>	<u>104,180,513</u>
Total liabilities	<u>3,122,261,027</u>	<u>119,946,085</u>	<u>243,070,739</u>	<u>15,712,420</u>	<u>3,500,990,271</u>
Equity	-	-	-	691,128,494	691,128,494
Total Liabilities and Equity	<u>3,122,261,027</u>	<u>119,946,085</u>	<u>243,070,739</u>	<u>706,840,914</u>	<u>4,192,118,765</u>
On-book gap	( 921,977,345)	705,182,047	66,570,801	150,224,497	-
Cumulative on-book gap	( 921,977,345)	( 216,795,298)	( 150,224,497)	-	-
Contingent assets	157,782	-	-	1,452,559	1,610,341
Contingent liabilities	( 197,845,854)	( 83,466,220)	( 27,822,073)	-	( 309,134,147)
Off-book gap	( 197,688,072)	( 83,466,220)	( 27,822,073)	1,452,559	( 307,523,806)
Cumulative off-book gap	( 197,688,072)	( 281,154,292)	( 308,976,365)	( 307,523,806)	-
Cumulative total gap	<u>(P 1,119,665,417)</u>	<u>(P 497,949,590)</u>	<u>(P 459,200,862)</u>	<u>(P 307,523,806)</u>	<u>P -</u>

The Bank continually assesses business opportunities and strategies where it can effectively and sufficiently match its short-term funding requirements with adequate liquid assets through taking customers' deposits with longer maturities and originating loans with periodic repayments enough to cover credit demands of customers.

The contractual maturities of the Bank's financial liabilities as of December 31, 2015 and 2014, are presented below.

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
<b>December 31, 2015</b>					
Deposit liabilities	P 3,718,208,950	P 178,922,332	P 246,445,786	P -	P4,143,577,068
Other liabilities	<u>104,224,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,224,649</u>
	<u><b>P 3,822,433,599</b></u>	<u><b>P 178,922,332</b></u>	<u><b>P 246,445,786</b></u>	<u><b>P -</b></u>	<u><b>P4,247,801,717</b></u>
<b>December 31, 2014</b>					
Deposit liabilities	P 3,033,782,975	P 119,856,044	P 243,070,739	P 100,000	P3,396,809,758
Other liabilities	<u>88,478,052</u>	<u>90,041</u>	<u>-</u>	<u>-</u>	<u>88,568,093</u>
	<u><b>P 3,122,261,027</b></u>	<u><b>P 119,946,085</b></u>	<u><b>P 243,070,739</b></u>	<u><b>P 100,000</b></u>	<u><b>P3,485,377,851</b></u>

### 4.3 Foreign Exchange Risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's net foreign currency exposure is computed as its foreign currency-denominated resources less foreign currency-denominated liabilities. BSP regulations impose a cap of 2.5% of net worth, or US\$5 million, whichever is lower, on the consolidated excess foreign currency holding of banks in the Philippines. In the case of the Bank, its foreign currency exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign currency in the Bank's branches. The Bank's foreign currency exposure on each day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

Foreign currency-denominated assets and liabilities as of December 31, 2015 and 2014 translated to closing rates consist of the following:

	2015		2014	
	US Dollar	Peso	US Dollar	Peso
Due from other banks	\$ 1,913,146	P 90,032,651	\$ 2,089,006	P 93,462,124
Cash and other cash items	15,757	741,524	11,409	510,434
Loans and receivables - net	7,214	339,491	5,960	266,648
Deposit liabilities	( 1,817,818)	( 85,546,519)	( 1,992,329)	( 89,136,810)
Other liabilities	( 14,405)	( 677,899)	( 3,627)	( 162,277)
Short-term exposure	<u>\$ 103,894</u>	<u>P 4,889,248</u>	<u>\$ 110,419</u>	<u>P 4,940,119</u>

The sensitivity of the net profit before tax and equity in regards to the Bank's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate assumes a +/- 10.42% change and +/- 11.56% change in the Philippine peso/US dollar exchange rate for the years ended December 31, 2015 and 2014, respectively. These percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% confidence level.

As the Bank's foreign currency exposure in both years as shown above is minimal, management has assessed that the effects of changes in the foreign exchange rate to the Bank's results of operations are not significant.

Exposures to foreign exchange rates vary during the year depending on the volume of the Bank's foreign currency deposit unit transactions.

#### **4.4 Interest Rate Risk**

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, AFS debt securities – bonds and floating rate loans. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The due from BSP was not included in the cash flow interest rate sensitivity since the potential effects on net profit or loss before tax and equity will be immaterial. All other financial assets and financial liabilities have fixed rates.

The table below illustrates the sensitivity of the Bank's profit or loss before tax and equity to a reasonably possible change in interest rates of the assets mentioned above. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Bank's financial instruments held at the end of each reporting period. All other variables are held constant.

	<u>+/- %</u>	<u>Loss Before Tax</u>	<u>Equity</u>
<b><u>December 31, 2015</u></b>			
Loans and receivables	0.11%	(P 2,835,909)	P 1,985,136
AFS securities – bonds	0.06%	( 266,394)	186,476
Due from other banks	0.06%	( 126,675)	88,672
		<b>(P 3,228,978)</b>	<b>P 2,260,284</b>
<b><u>December 31, 2014</u></b>			
Due from other banks	0.47%	(P 1,036,533)	P 725,573
AFS securities – bonds	0.52%	( 375,213)	262,649
Loans and receivables	1.23%	( 20,730,691)	14,511,483
		<b>(P 22,142,437)</b>	<b>P 15,499,705</b>

The Bank's loan portfolio includes floating rate loans, which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. The changes in interest rates used in the analysis have been determined based on the average volatility in interest rates of the said resources, using standard deviation, in the previous 12 months.

## 5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 5.1 Carrying Amounts and Fair Values by Category

The following table presents a comparison by category of the carrying amounts and estimated fair values of the Bank's financial assets and financial liabilities:

Notes	<u>2015</u>		<u>2014</u>	
	<u>Carrying Amounts</u>	<u>Fair Values</u>	<u>Carrying Amounts</u>	<u>Fair Values</u>
<b><i>Financial Assets</i></b>				
Loans and receivables:				
	P 99,154,882	P 99,154,882	P 152,246,760	P 152,246,760
	1,118,494,957	1,118,494,957	1,037,862,022	1,037,862,022
7				
	210,773,710	210,773,710	220,538,904	220,538,904
8				
	2,496,398,635	2,496,398,635	2,130,815,636	2,130,815,636
10				
	11,076,773	11,076,773	10,196,622	10,196,622
13				
	318,880,381	318,880,381	46,026,323	46,026,323
9				
	<b>P 4,254,779,338</b>	<b>P 4,254,779,338</b>	<b>P 3,597,686,267</b>	<b>P 3,597,686,267</b>
<b><i>Financial Liabilities</i></b>				
At amortized cost:				
	P 4,143,577,068	P 4,143,577,068	P 3,396,809,758	P 3,396,809,758
14				
	104,224,650	104,224,650	88,568,093	88,568,093
15				
	<b>P 4,247,801,718</b>	<b>P 4,247,801,718</b>	<b>P 3,485,377,851</b>	<b>P 3,485,377,851</b>

The amounts of AFS securities as of December 31, 2015 and 2014 do not include investments totaling P105.3 million and P41.2 million, respectively, which is composed of debt and equity securities that are carried at cost as their fair values cannot be determined (see Note 9).

See Notes 2.3 and 2.9 for the description of the accounting policies for each category of financial instruments. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

## 5.2 *Offsetting of Financial Assets and Financial Liabilities*

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	<u>Gross amounts recognized in the statements of financial position</u>	<u>Related amounts not set off in the statements of financial position</u>		<u>Net amount</u>
		<u>Financial Instruments</u>	<u>Collateral received</u>	
Loans and receivables –				
Receivables from customers				
December 31, 2015	P 2,383,787,755	(P 1,018,938,990)	P -	P 1,364,848,765
December 31, 2014	1,985,161,677	( 1,011,467,692)	-	973,693,985

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	<u>Gross amounts recognized in the statements of financial position</u>	<u>Related amounts not set off in the statements of financial position</u>		<u>Net amount</u>
		<u>Financial Instruments</u>	<u>Collateral received</u>	
Deposit liabilities –				
December 31, 2015	P 4,143,577,068	(P 1,018,938,990)	P -	P 3,124,638,078
December 31, 2014	3,396,809,758	( 1,011,467,692)	-	2,385,342,066

For financial assets and financial liabilities (i.e., receivable from customers and their corresponding hold-out deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.



## 6. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 6.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

## 6.2 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2015 and 2014.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2015</u></b>				
AFS securities:				
Debt securities				
Corporate bonds	P206,322,803	P -	P -	P 206,322,803
Government securities	40,079,408	-	-	40,079,408
Equity securities	56,908,170	-	-	56,908,170
Proprietary shares	-	15,570,000	-	15,570,000
	<b><u>P303,310,381</u></b>	<b><u>P 15,570,000</u></b>	<b><u>P -</u></b>	<b><u>P 318,880,381</u></b>
 <b><u>December 31, 2014</u></b>				
AFS securities:				
Government securities				
	P 30,956,323	P -	P -	P 30,956,323
Proprietary shares	-	15,070,000	-	15,070,000
	<b><u>P 30,956,323</u></b>	<b><u>P 15,070,000</u></b>	<b><u>P -</u></b>	<b><u>P 46,026,323</u></b>

The amounts of AFS securities as of December 31, 2015 and 2014 do not include investments totaling are net of P105.3 million and P41.2 million, respectively, which is composed of debt and equity securities that are carried at cost as their fair values cannot be determined (see Note 9).

The Bank has no financial liabilities measured at fair value as of December 31, 2015 and 2014.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Bank's AFS financial assets are determined.

(a) *Equity securities*

The fair values of equity securities were valued based on their market prices quoted in the Philippine Stock Exchange at the end of each reporting period; hence, included in Level 1.

(b) *Debt Securities*

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published bid prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each reporting period. On the other hand, government bonds with fair value categorized within Level 2 is determined based on the prices of relative benchmark securities which are also quoted in an active market or bond exchange (e.g., PDEX).

(b) *Propriety Shares*

Proprietary golf club shares are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of each reporting period.

**6.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed***

The table below summarizes the fair value hierarchy of the Bank's financial assets and liabilities which are not measured at fair value in the 2015 and 2014 statements of financial position but for which fair values is disclosed.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2015</u></b>				
<i>Financial assets:</i>				
Loans and receivables:				
Cash and other cash items	P 99,154,882	P -	P -	P 99,154,882
Due from BSP	1,118,494,957	-	-	1,118,494,957
Due from other banks	210,773,710	-	-	210,773,710
Loans and receivables - net	-	-	2,496,398,635	2,496,398,635
Other resources	-	-	11,076,773	11,076,773
	<u>P 1,428,423,549</u>	<u>P -</u>	<u>P 2,507,475,408</u>	<u>P 3,935,898,957</u>
<i>Financial liabilities:</i>				
At amortized cost:				
Deposit liabilities	P -	P -	P 4,143,577,068	P 4,143,577,068
Other liabilities	-	-	104,224,649	104,224,649
	<u>P -</u>	<u>P -</u>	<u>P 4,247,801,717</u>	<u>P 4,247,801,717</u>
<b><u>December 31, 2014</u></b>				
<i>Financial assets:</i>				
Loans and receivables:				
Cash and other cash items	P 152,246,760	P -	P -	P 152,246,760
Due from BSP	1,037,862,022	-	-	1,037,862,022
Due from other banks	220,538,904	-	-	220,538,904
Loans and receivables - net	-	-	2,130,815,636	2,130,815,636
Other resources	-	-	10,196,622	10,196,622
	<u>P 1,410,647,686</u>	<u>P -</u>	<u>P 2,141,012,258</u>	<u>P 3,551,659,944</u>
<i>Financial liabilities:</i>				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,396,809,758	P 3,396,809,758
Other liabilities	-	-	88,568,093	88,568,093
	<u>P -</u>	<u>P -</u>	<u>P 3,485,377,851</u>	<u>P 3,485,377,851</u>

Fair values of the foregoing financial assets and financial liabilities measured and presented in the statements of financial position at amortized cost are estimated as follows:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks include interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) *Loans and Receivables and Other Resources*

Loans and receivables and certain accounts under other resources are net of any impairment losses. The estimated fair value of loans and receivables and other resources represents the discounted amount of estimated future cash flows expected to be received for instruments with maturities of beyond one year. Expected cash flows are discounted at current market rates to determine fair value.

(c) *Deposit Liabilities*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits which are generally short-term in nature approximate their fair values.

(d) *Other Liabilities*

Other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

**6.4 Fair Value Disclosures for Investment Properties**

The total estimated fair values of the Bank's investment properties amounted to P34.5 million and P37.6 million as of December 31, 2015 and 2014, respectively. The fair value hierarchy of those properties categorized as Level 3, are shown below.

	<u>2015</u>	<u>2014</u>
Land	<b>P 23,621,500</b>	P 26,668,407
Buildings	<u>10,924,235</u>	<u>10,929,202</u>
	<b><u>P 34,545,735</u></b>	<b><u>P 37,597,609</u></b>

The fair value disclosed for the Bank's investment properties as of December 31, 2015 and 2014 was based on the appraisals performed by the Bank's in-house and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

The fair values of the Bank's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and was adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value of the properties.

(b) *Fair Value Measurement for Buildings*

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used during the year. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2015 and 2014.

## 7. DUE FROM BANGKO SENTRAL NG PILIPINAS

The balance of this account consists of the following:

	<u>2015</u>	<u>2014</u>
Demand deposit	<b>P 342,494,957</b>	P 332,862,022
Special deposit	<u>776,000,000</u>	<u>705,000,000</u>
	<b><u>P1,118,494,957</u></b>	<b><u>P1,037,862,022</u></b>

The aggregate balance of noninterest-bearing Demand Deposit Account and interest-bearing Special Deposit Account, both in local currency, are maintained with the BSP primarily to meet a portion of the reserve requirements and to serve as a clearing account for interbank claims.

Interest-bearing deposits with the BSP bears annual interest at rates of 2.50% in 2015, 2.00% to 2.50% in 2014 and 2.00% to 3.00% in 2013. Total interest earned from these deposits amounted to P19.8 million, P13.4 million and P6.7 million in 2015, 2014 and 2013, respectively, and are shown as part of the Interest Income on Due from BSP and Other Banks account in the statements of profit or loss.

## 8. DUE FROM OTHER BANKS

This account represents deposits with local banks which are composed of the following:

	<u>2015</u>	<u>2014</u>
Time deposits	<b>P 97,752,739</b>	P 114,806,433
Savings deposits	<u><b>113,020,971</b></u>	<u>105,732,471</u>
	<u><b>P 210,773,710</b></u>	<u>P 220,538,904</u>

Savings deposits represent clearing and other depository accounts with other banks which bear annual interest at rates of 0.25% to 0.88% in 2015, 2014 and 2013.

Time deposits include special savings deposits, which bear annual effective interest rate ranging from 1.00% to 2.50% in 2015, 1.00% to 1.80% in 2014 and 1.00% to 2.20% in 2013 and have average maturities of one to 12 months.

Interest income earned from these savings and time deposits amounted to P1.5 million, P2.0 million and P1.9 million in 2015, 2014 and 2013, respectively, and are shown as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of this account by currency is as follows:

	<u>2015</u>	<u>2014</u>
Peso	<b>P 127,741,048</b>	P 127,076,780
US dollar	<u><b>90,032,662</b></u>	<u>93,462,124</u>
	<u><b>P 210,773,710</b></u>	<u>P 220,538,904</u>

For statements of cash flows purposes, deposits amounting to P18.1 million and P55.5 million as of December 31, 2015 and 2014, respectively, are not considered as cash and cash equivalents since these have maturities of more than three months (see Note 25).

## 9. AVAILABLE-FOR-SALE SECURITIES

The breakdown of AFS securities as to type of instrument is shown below.

	<u>2015</u>	<u>2014</u>
Equity securities:		
Quoted	<b>P 56,908,170</b>	P -
Unquoted	<b>50,000,000</b>	-
Government debt securities:		
Quoted	<b>40,079,408</b>	30,956,323
Unquoted	<b>35,314,284</b>	41,200,000
Corporate bonds		
Quoted	<b>206,322,803</b>	-
Unquoted	<b>20,000,000</b>	-
Quoted proprietary club shares	<b><u>15,570,000</u></b>	<u>15,070,000</u>
	<b><u>P 424,194,665</u></b>	<u>P 87,226,323</u>

Unquoted equity securities pertains to non-marketable preference shares issued by a private corporation. This security earns an annual fixed dividend of P2.3 million and is presented as Dividends as part of Miscellaneous under Other Operating Income in the statements of profit or loss (see Note 17.1).

Unquoted government debt securities is composed of debt securities issued by the local government of Infanta, Quezon. This securities earns an annual effective interest rate of 5.7% in 2015, 4.9% in 2014 and 4.4% in 2013.

Unquoted corporate debt securities pertain to debt securities issued by a private corporation. This earns an annual effective interest rate of 4.3%.

All unquoted securities are carried at cost as the fair value of these securities cannot be determined.

Quoted equity securities pertains to shares of stock of domestic corporations whose shares of stock are publicly traded in the PSE.

Quoted government debt securities represents debt securities issued by the Republic of the Philippines, which earn annual interests ranging from 5.0% to 6.4% in 2015, 2014 and 2013. These securities will mature in various dates within 2016 to 2037.

Quoted corporate bonds are marketable debt securities issued by top corporations in the Philippines. These debt securities earn annual effective interest rates ranging from 4.5% to 6.7%.

Proprietary club shares consist of golf shares of Forest Hills Golf & Country Club, previously acquired from borrowers as settlement of loan, and of Wack Wack Golf & Country Club.

The reconciliation of the carrying amounts of AFS securities follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	<b>P 87,226,323</b>	P 95,249,914
Acquisitions	<b>349,261,514</b>	-
Maturity	<b>( 15,885,716)</b>	( 6,650,000)
Amortization	<b>130,609</b>	( 257,614)
Fair value gains (losses)	<b><u>3,461,935</u></b>	<b><u>(1,115,977)</u></b>
Balance at end of year	<b><u>P 424,194,665</u></b>	<b><u>P 87,226,323</u></b>

Unrealized fair value losses on AFS securities amounting to P3.5 million, P1.1 million and P2.6 million in 2015, 2014 and 2013, respectively, were reported in Other Comprehensive Income, net of tax, and formed part of the Revaluation Reserves account in the statements of changes in equity (see Note 16.2).

Interest income earned by the Bank from AFS securities amounted to P7.5 million, P4.8 million and P3.4 million in 2015, 2014 and 2013, respectively.

The fair values of quoted government debt securities and equity securities have been determined under Level 1 hierarchy, while proprietary club shares have been determined under Level 2 hierarchy (see Note 6.2).

Certain government securities amounting to P10.0 million as of December 31, 2015 and 2014 were earmarked for trust duties and tagged as non-tradable by the Bureau of Treasury (see Note 20).

## 10. LOANS AND RECEIVABLES

The details of this account follows:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Receivables from customers		<b>P2,383,787,755</b>	P1,985,161,677
Sales contract receivables	11, 21.5	<b>113,457,634</b>	138,224,486
Long-term negotiable certificate of deposit		-	20,000,000
Other receivables		<b><u>43,947,678</u></b>	<b><u>37,805,527</u></b>
		<b>2,541,193,067</b>	2,181,191,690
Unearned interests, discounts and other charges		<b>( 7,431,375)</b>	( 9,125,984)
Allowance for impairment		<b><u>(37,363,057)</u></b>	<b><u>(41,250,070)</u></b>
		<b><u>P2,496,398,635</u></b>	<b><u>P2,130,815,636</u></b>

Included in receivables from customers are non-accruing loans amounting to P26.3 million and P21.1 million as of December 31, 2015 and 2014, respectively.



Receivables from customers are composed of the following:

	<u>2015</u>	<u>2014</u>
Time loans	<b>P1,560,231,761</b>	P1,164,746,270
Bills discounted	<b>717,484,750</b>	709,327,890
Past due loans	<b>66,622,947</b>	84,956,719
Items in litigation	<b>21,669,431</b>	21,656,218
Restructured loans	<b>17,428,866</b>	3,492,693
Bills purchased	<b><u>350,000</u></b>	<u>981,887</u>
	<b><u>P2,383,787,755</u></b>	<b><u>P1,985,161,677</u></b>

Receivables from customers bear annual interest rates of 1.3% to 55.0% in 2015, 2014 and 2013. On the other hand, sales contract receivables bear annual interest rates of 6.0% to 16.8% in 2015, 6.0% to 18.2% in 2014, and 8.1% to 18.2% in 2013.

The maturity profile of the Bank's receivables from customers follows:

	<u>2015</u>	<u>2014</u>
Within one year	<b>P1,520,304,522</b>	P1,504,396,430
Beyond one year:		
Within five years	<b>417,730,926</b>	308,782,718
Beyond five years	<b><u>445,752,307</u></b>	<u>171,982,529</u>
	<b><u>P2,383,787,755</u></b>	<b><u>P1,985,161,677</u></b>

The breakdown of total receivables from customers as to type of interest rate follows:

	<u>2015</u>	<u>2014</u>
Variable interest rates	<b>P1,422,565,644</b>	P1,838,022,187
Fixed interest rates	<b><u>961,222,111</u></b>	<u>147,139,490</u>
	<b><u>P2,383,787,755</u></b>	<b><u>P1,985,161,677</u></b>

The breakdown of total receivables from customers as to secured and unsecured and the type of security for secured accounts follows:

	<u>2015</u>	<u>2014</u>
Secured:		
Hold-out deposit	<b>P1,018,938,990</b>	P1,011,467,692
Real estate mortgage	<b>943,921,155</b>	475,791,612
Pledge - Jewelries	<b>222,998,618</b>	307,512,555
Chattel mortgage	<b><u>166,531,834</u></b>	<u>154,568,706</u>
	<b><u>2,352,390,597</u></b>	<u>1,949,340,565</u>
Unsecured	<b><u>31,397,158</u></b>	<u>35,821,112</u>
	<b><u>P2,383,787,755</u></b>	<b><u>P1,985,161,677</u></b>

Sales contract receivables represent the outstanding balance related to the sale of investment properties (see Note 12). The terms of payment ranges from two to 25 years in 2015 and two to 22 years in 2014. Interest rates on these receivables range from 8.0% to 16.8% per annum in 2015 and 6.0% to 18.0% per annum both in 2014 and 2013. Sales contract receivable as of December 31, 2015 and 2014 includes the outstanding balance of the receivable from a certain related party in relation to the sale of a certain parcel of land (see Note 11). This is payable until 2017 and bears an annual interest rate of 7.0%.

Long-term negotiable certificate of deposit pertains to a deposit to a local bank, which bears an annual interest rate of 4.3%.

Changes in the amounts of allowance for impairment of loans and receivables are summarized below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	<b>P 41,250,070</b>	P 28,753,822
Impairment loss	<b>22,987,000</b>	15,633,101
Impairment recoveries	<b>( 26,874,013)</b>	( 2,063,147)
Write-off	<u>-</u>	<u>( 1,073,706)</u>
Balance at end of year	<b><u>P 37,363,057</u></b>	<b><u>P 41,250,070</u></b>

The breakdown of allowance for impairment on loans and receivables is shown below.

	<u>2015</u>	<u>2014</u>
Receivables from customers	<b>P 31,443,417</b>	P 35,330,430
Sales contract receivables	<b>501,115</b>	501,115
Other receivables	<u><b>5,418,525</b></u>	<u>5,418,525</u>
	<b><u>P 37,363,057</u></b>	<b><u>P 41,250,070</u></b>

## 11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014 are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
December 31, 2015					
Cost	P 71,375,102	P 146,991,449	P 146,778,162	P 32,314,166	P 397,458,879
Accumulated depreciation and amortization	<u>-</u>	<u>( 51,416,754)</u>	<u>( 107,638,178)</u>	<u>( 13,903,346)</u>	<u>( 172,958,278)</u>
Net carrying amount	<b><u>P 71,375,102</u></b>	<b><u>P 95,574,695</u></b>	<b><u>P 39,139,984</u></b>	<b><u>P 18,410,820</u></b>	<b><u>P 224,500,601</u></b>
December 31, 2014					
Cost	P 71,375,102	P 146,641,240	P 138,318,214	P 22,709,254	P 379,043,810
Accumulated depreciation and amortization	<u>-</u>	<u>( 43,007,976)</u>	<u>( 98,957,090)</u>	<u>( 11,930,987)</u>	<u>( 153,896,053)</u>
Net carrying amount	<b><u>P 71,375,102</u></b>	<b><u>P 103,633,264</u></b>	<b><u>P 39,361,124</u></b>	<b><u>P 10,778,267</u></b>	<b><u>P 225,147,757</u></b>
January 1, 2014					
Cost	P 99,656,485	P 124,395,798	P 121,385,196	P 20,066,421	P 365,503,900
Accumulated depreciation and amortization	<u>-</u>	<u>( 36,919,850)</u>	<u>( 93,882,632)</u>	<u>( 11,563,763)</u>	<u>( 142,366,245)</u>
Net carrying amount	<b><u>P 99,656,485</u></b>	<b><u>P 87,475,948</u></b>	<b><u>P 27,502,564</u></b>	<b><u>P 8,502,658</u></b>	<b><u>P 223,137,655</u></b>

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014, is shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 71,375,102	P 103,633,264	P 39,361,124	P 10,778,267	P 225,147,757
Additions	-	350,209	12,672,570	10,297,017	23,319,796
Disposals	-	-	( 51,214)	-	( 51,214)
Depreciation and amortization charges for the year	-	( 8,408,778 )	( 12,842,496 )	( 2,664,464 )	( 23,915,738 )
Balance at December 31, 2015, net of accumulated depreciation and amortization	<u>P 71,375,102</u>	<u>P 95,574,695</u>	<u>P 39,139,984</u>	<u>P 18,410,820</u>	<u>P 224,500,601</u>
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 99,656,485	P 87,475,948	P 27,502,564	P 8,502,658	P 223,137,655
Additions	27,833,617	22,245,442	21,244,159	4,736,426	76,059,644
Disposals	( 56,115,000 )	-	-	( 3,942 )	( 56,118,942 )
Depreciation and amortization charges for the year	-	( 6,088,126 )	( 9,385,599 )	( 2,456,875 )	( 17,930,600 )
Balance at December 31, 2014, net of accumulated depreciation and amortization	<u>P 71,375,102</u>	<u>P 103,633,264</u>	<u>P 39,361,124</u>	<u>P 10,778,267</u>	<u>P 225,147,757</u>

In 2014, the Bank sold a certain parcel of land to a related party under common ownership, with cost amounting to P56.1 million for a total consideration of P81.7 million. The sale was executed through a contract to sell with an attached deed of assignment and instruction in favor of the Bank to change the deposit account of the related party buyer as settlement for the 20% down payment. Such deposit was debited and applied to the receivable balance subsequent to December 31, 2014 but considered by the Bank as constructively received as of December 31, 2014. The outstanding balance of the contract receivable is presented as part of Sales contract receivable under the Loans and Receivables account in the 2014 statement of financial position (see Note 10). The related gain on sale amounting to P25.6 million is presented as Gain on sale of bank premises under Miscellaneous Income account in the 2014 statement of profit or loss (see Note 17.1).

Depreciation and amortization expenses amounting to P23.9 million in 2015, P17.9 million in 2014 and P12.2 million in 2013 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

As of December 31, 2015 and 2014, the gross carrying amount of the Bank's fully-depreciated assets that are still in use in operations amounts to P75.7 million and P78.0 million, respectively.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2015 and 2014, the Bank has satisfactorily complied with this BSP requirement.

## 12. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2015 and 2014 are shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
December 31, 2015			
Cost	P 20,466,467	P 13,231,862	P 33,698,329
Accumulated depreciation	-	( 5,920,846)	( 5,920,846)
Allowance for impairment	( 550,089)	-	( 550,089)
Net carrying amount	<b><u>P 19,916,378</u></b>	<b><u>P 7,311,016</u></b>	<b><u>P 27,227,394</u></b>
December 31, 2014			
Cost	P 17,433,054	P 10,101,296	P 27,534,350
Accumulated depreciation	-	( 4,503,004)	( 4,503,004)
Allowance for impairment	( 550,089)	-	( 550,089)
Net carrying amount	<b><u>P 16,882,965</u></b>	<b><u>P 5,598,292</u></b>	<b><u>P 22,481,257</u></b>
January 1, 2014			
Cost	P 17,433,054	P 13,618,758	P 31,051,812
Accumulated depreciation	-	( 3,959,198)	( 3,959,198)
Allowance for impairment	( 550,089)	-	( 550,089)
Net carrying amount	<b><u>P 16,882,965</u></b>	<b><u>P 9,659,560</u></b>	<b><u>P 26,542,525</u></b>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2015 and 2014 is shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 16,882,965	P 5,598,292	P 22,481,257
Additions	3,064,261	3,130,566	6,194,827
Disposals	( 30,848)	-	( 30,848)
Depreciation charges for the year	-	( 1,417,842)	( 1,417,842)
Balance at December 31, 2015, net of accumulated depreciation and impairment	<b><u>P 19,916,378</u></b>	<b><u>P 7,311,016</u></b>	<b><u>P 27,227,394</u></b>
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 16,882,965	P 9,659,560	P 26,542,525
Disposals	-	( 3,019,155)	( 3,019,155)
Depreciation charges for the year	-	( 1,042,113)	( 1,042,113)
Balance at December 31, 2014, net of accumulated depreciation and impairment	<b><u>P 16,882,965</u></b>	<b><u>P 5,598,292</u></b>	<b><u>P 22,481,257</u></b>

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P5.1 million, P4.1 million and P3.4 million in 2015, 2014 and 2013, respectively, and is presented as Rental income under the Miscellaneous Income account in the statements of profit or loss (see Notes 17.1 and 24.2).

Direct operating expenses incurred on these investment properties amounted to P0.4 million, P2.7 million and P2.1 million for the years ended December 31, 2015, 2014 and 2013, respectively, and are presented as part of Litigation and Asset Acquired Expenses in the statements of profit or loss.

The total fair values of investment properties as of December 31, 2015 and 2014 amounted to P34.5 million and P37.6 million, respectively, as determined by the Bank's in-house and independent appraisers (see Note 6.4).

As of December 31, 2015 and 2014, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

### 13. OTHER RESOURCES

The details of this account follows:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Assets held-for-sale – net	13.1	<b>P 118,408,793</b>	P 186,368,133
Computer software – net	13.2	<b>50,054,393</b>	47,824,516
Sundry debits	13.4	<b>33,498,794</b>	12,565,359
Branch licenses	13.3	<b>32,500,000</b>	32,500,000
Stationery and supplies on hand		<b>7,559,286</b>	6,887,952
Security deposits	13.5, 21.4	<b>7,369,426</b>	6,917,657
Prepaid expenses	13.6	<b>5,958,899</b>	6,575,566
Deferred tax assets – net	19	<b>4,577,816</b>	5,285,594
Deposit with Philippine Clearing House Corp. (PCHC)		<b>2,500,000</b>	2,500,000
Advance rental		<b>2,426,993</b>	2,681,493
Utility deposit		<b>849,014</b>	445,632
Documentary stamps		<b>658,254</b>	566,210
Deposit to Bancnet		<b>500,000</b>	500,000
Other investments		<b>153,333</b>	153,333
Miscellaneous		<b><u>3,508,131</u></b>	<u>4,028,661</u>
		<b><u>P 270,523,132</u></b>	<u>P 315,800,106</u>

#### 13.1 Assets Held-for-Sale

Non-financial assets include vehicles and jewelry items foreclosed from borrowers. In 2014, the Bank recognized impairment loss on foreclosed jewelry items amounting to P13.5 million, which is presented as part of Impairment Losses account in the 2014 statement of profit or loss. Certain jewelries were subsequently sold in 2015 and recognized loss on sale amounting to P2.4 million; hence, impairment recoveries amounting to P9.9 million was recognized in the 2015 statement of profit or loss.

The breakdown of this account is as follows:

	<u>2015</u>	<u>2014</u>
Jewelry items	<b>P 118,915,891</b>	P 197,892,703
Motor vehicles	<b><u>3,096,178</u></b>	<u>1,977,966</u>
	<b>122,012,069</b>	199,870,669
Allowance for impairment	<b><u>( 3,603,276)</u></b>	<u>( 13,502,536)</u>
	<b><u>P 118,408,793</u></b>	<u>P 186,368,133</u>

Changes in the carrying amounts of jewelry items are summarized below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	<b>P 197,892,703</b>	P 146,625,005
Foreclosures	<b>24,384,066</b>	95,946,550
Disposals	<b>( 103,360,878)</b>	<b>( 44,678,852)</b>
Balance at end of year	<b><u>P 118,915,891</u></b>	<b><u>P 197,892,703</u></b>

### ***13.2 Computer Software***

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of five to ten years. In October 2013, the Bank contracted the services of and acquired a new banking software from a certain vendor with installation of the said new software substantially completed in August 2014. Total cost of the software amounted to P46.7 million and the outstanding balance of P26.3 million is presented as part of Accounts payable under Other Liabilities account in the 2014 statement of financial position (see Note 15.1). Amortization of computer software amounted to P5.7 million in 2015, P0.7 million in 2014 and P0.6 million in 2013 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

### ***13.3 Branch License***

Branch licenses pertain to the cost of licenses acquired by the Bank in 2004 and in 2006 for a consideration of P11.0 million and P20.0 million, respectively. The Bank also incurred P1.5 million representing relocation costs of the branches acquired in 2004.

### ***13.4 Sundry Debits***

Sundry debits and sundry credits mainly pertain to automated teller machine deposit and withdrawal transactions, including fees and charges thereon, which are yet to be classified, cleared and applied against proper customers' accounts within one month from date of entry (see Note 15).

### ***13.5 Security Deposits***

Security deposits include refundable and non-refundable deposits for the lease of the various branches of the Bank from several parties. Refundable security deposits are remeasured at amortized cost using the effective interest rates ranging from 5.76% to 7.42% determined at the inception of the lease contracts. The fair values on initial recognition of the security deposits were determined by calculating the present value of the future cash flows anticipated until the end of the lease term using discount rates determined by reference to market interest rate of comparable financial instrument.

### ***13.6 Prepaid Expenses***

Prepaid expenses are mainly composed of prepaid insurances, annual fees, and other prepaid expenses, etc.

#### 14. DEPOSIT LIABILITIES

Savings deposits have interest rate of 0.25% per annum in 2015, 2014 and 2013. Peso term deposit interest rates ranging from 0.31% to 3.25% per annum in 2015, 2014, and 2013. US dollar term deposit interest rates ranging from 0.13% to 1.30% in 2015, and 0.13% to 1.25% per annum both in 2014 and 2013.

The breakdown of the interest expense incurred related to each type of deposit liabilities is shown below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Savings:			
Peso	<b>P 28,764,953</b>	P 19,778,044	P 22,205,688
Dollar	<b>38,436</b>	34,212	27,459
Time:			
Peso	<b>10,658,362</b>	8,967,719	4,203,230
Dollar	<b>407,970</b>	521,844	417,598
Demand	<b><u>614,477</u></b>	<u>426,675</u>	<u>353,904</u>
	<b><u>P 40,484,198</u></b>	<u>P 29,728,494</u>	<u>P 27,207,879</u>

The breakdown of deposit liabilities as to currency is shown below.

	<u>2015</u>	<u>2014</u>
Philippine Peso	<b>P4,058,030,548</b>	P3,307,672,948
US Dollars	<b><u>85,546,520</u></b>	<u>89,136,810</u>
	<b><u>P4,143,577,068</u></b>	<u>P3,396,809,758</u>

The maturity profile of the Bank's deposit liabilities follows:

	<u>2015</u>	<u>2014</u>
Within one year	<b>P3,897,131,282</b>	P3,153,639,019
Beyond one year but within five years	<b>246,445,786</b>	243,070,739
Beyond five years	<b><u>-</u></b>	<u>100,000</u>
	<b><u>P4,143,577,068</u></b>	<u>P3,396,809,758</u>

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 8.00% both in 2015 and 2014. The Bank has reserves from its balance in Due from BSP account amounting to P322.9 million and P366.6 million as of December 31, 2015 and 2014, respectively (see Note 6.2). The Bank is in compliance with these BSP regulations as of the end of reporting period.

## 15. OTHER LIABILITIES

This account consists of the following:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Accounts payable	15.1	<b>P 46,856,979</b>	P 54,727,117
Accrued expenses	15.2	<b>25,912,460</b>	13,218,609
Cashier's and manager's checks		<b>24,493,245</b>	11,658,890
Post-employment benefit obligation	18.2	<b>12,506,323</b>	12,418,975
Sundry credits	13	<b>5,865,139</b>	7,239,146
Income tax payable		<b>1,483,351</b>	3,193,445
Security deposits	15.3	<b>976,702</b>	1,065,847
Bills purchased clearing		-	518,000
Miscellaneous		<b>120,125</b>	140,484
		<b><u>P 118,214,324</u></b>	<b><u>P 104,180,513</u></b>

### 15.1 Accounts Payable

Accounts payable is mainly composed of collections of SSS contributions from various clients of the Bank, which are remitted to SSS in the succeeding month following the month of collection, advance collections from borrowers and payable to third party vendors and contractors for purchases of goods and services including the software costs which are not yet settled at the end of each reporting period (see Note 13.2).

### 15.2 Accrued Expenses

Accrued expenses are mainly composed of gross receipts taxes, insurance premium to PDIC, and various accruals for utilities, security and janitorial services.

### 15.3 Security Deposits

Security deposits pertain to the deposits received from third parties related to the lease of Bank-owned investment properties, which are refundable at the end of the lease terms. The security deposits are remeasured at amortized cost using the effective interest method. The fair values on initial recognition of the security deposits were determined by calculating the present value of the cash flows anticipated until the end of the lease term using the effective interest rates ranging from 6.35% to 6.56% determined at the inception of the lease. As the deposits do not have an active market, the underlying interest rates were determined by reference to market interest rate of comparable financial instrument.



## 16. EQUITY

### 16.1 Capital Stock

As of December 31, 2015 and 2014, the Bank has total authorized capital stock of 100,000,000 common shares at P10 par value per share. As of those dates, total issued and outstanding shares consisted of 72,764,998 shares amounting to P727.6 million.

On November 28, 2001, the SEC approved the listing of the Bank's shares totaling 44,100,000. The shares were initially listed at an offer price of P11.55 per share. As of December 31, 2015 and 2014, there are 55 holders of the Bank's total outstanding shares. Such listed shares closed at P10.0 per share as of December 31, 2015.

### 16.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	<u>AFS Securities</u>	<u>Defined Benefit Plan</u>	<u>Total</u>
Balance as of January 1, 2015	P 8,063,840	(P 3,776,605)	P 4,287,235
Remeasurements of defined benefit post-employment plan	-	2,996,675	2,996,675
Fair value gain on AFS securities	<u>3,461,935</u>	<u>-</u>	<u>2,904,705</u>
Other comprehensive income before tax	3,461,935	2,996,675	5,901,380
Tax expense	<u>(557,230)</u>	<u>(899,003)</u>	<u>(899,003)</u>
Other comprehensive income after tax	<u>2,904,705</u>	<u>2,097,672</u>	<u>5,002,377</u>
Balance as of December 31, 2015	<b><u>P 10,968,545</u></b>	<b><u>(P 1,678,933)</u></b>	<b><u>P 9,289,612</u></b>
Balance as of January 1, 2014	P 9,179,817	(P 6,534,704)	P 2,645,113
Remeasurements of defined benefit post-employment plan	-	3,940,141	3,940,141
Fair value loss on AFS securities	<u>(1,115,977)</u>	<u>-</u>	<u>(1,115,977)</u>
Other comprehensive income (loss) before tax	(1,115,977)	3,940,141	2,824,164
Tax expense	<u>-</u>	<u>(1,182,042)</u>	<u>(1,182,042)</u>
Other comprehensive income (loss) after tax	<u>(1,115,977)</u>	<u>2,758,099</u>	<u>1,642,122</u>
Balance as of December 31, 2014	<u>P 8,063,840</u>	<u>(P 3,776,605)</u>	<u>P 4,287,235</u>
Balance as of January 1, 2013	P 11,397,923	(P 4,105,383)	P 7,292,540
Remeasurements of defined benefit post-employment plan	-	(3,470,458)	(3,470,458)
Fair value loss on AFS securities	<u>(2,616,050)</u>	<u>-</u>	<u>(2,616,050)</u>
Other comprehensive loss before tax	(2,616,050)	(3,470,458)	(6,086,508)
Tax income	<u>397,944</u>	<u>1,041,137</u>	<u>1,439,081</u>
Other comprehensive loss after tax	<u>(2,218,106)</u>	<u>(2,429,321)</u>	<u>(4,647,427)</u>
Balance as of December 31, 2013	<u>P 9,179,817</u>	<u>(P 6,534,704)</u>	<u>P 2,645,113</u>

### 16.3 Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of the Bank should not be less than an amount equal to 10% of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests;
- (c) deferred tax asset or liability;
- (d) goodwill;
- (e) accumulated equity in earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied; and,
- (f) appraisal increment on bank premises, furniture, fixtures and equipment other than those allowed to be recognized in connection with a merger or acquisition.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The Bank's regulatory capital position at the end of each reporting period follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Tier 1 Capital	<b>P 566,741,868</b>	P 644,245,403	P 706,522,924
Tier 2 Capital	<b><u>13,296,000</u></b>	<u>8,595,234</u>	<u>11,461,003</u>
Total Qualifying Capital	<b>P <u>580,037,868</u></b>	<u>P 652,840,637</u>	<u>P 717,983,927</u>
Total Risk Weighted Assets	<b>P <u>2,588,769,728</u></b>	<u>P 2,236,246,452</u>	<u>P 2,271,577,145</u>
Capital Adequacy Ratio (CAR)	<b>22.41%</b>	29.19%	31.61%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

#### 16.4 Minimum Capital Requirement

On October 9, 2014, the Monetary Board of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P1.0 billion for head office in Metro Manila. The Bank is contemplating for the feasible capital build-up program that it will implement within the five year period required by the BSP to meet this new minimum capital requirements.

### 17. MISCELLANEOUS INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

#### 17.1 Miscellaneous Income

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Penalty on loans		<b>P 6,757,480</b>	P 3,814,092	P 2,644,428
Rental income	12, 24.2	<b>5,142,059</b>	4,083,569	3,395,134
Legal and appraisal fees		<b>2,974,513</b>	201,887	993,038
Income from trust department	20	<b>2,564,244</b>	1,455,861	1,602,168
Dividends		<b>2,272,418</b>	-	-
Interbank ATM transactions		<b>2,131,738</b>	4,621,429	5,620,752
Income from re-ordered and pre-encoded checks		<b>970,984</b>	818,776	979,577
Gain from assets acquired/exchanged		<b>384,976</b>	2,975,246	33,537,450
Foreign exchange gains – net		<b>216,862</b>	-	545,319
Gain on sale of bank premises	11	-	25,563,500	-
Fair value gain on security deposits		-	69,396	60,222
Gain on reversal of liabilities		-	-	629,300
Others		<b>840,752</b>	1,313,784	1,377,816
		<b><u>P 24,256,026</u></b>	<b><u>P 44,917,540</u></b>	<b><u>P 51,385,204</u></b>

Gains from assets acquired/exchanged represent gains arising from the disposal of investment properties and other non-financial assets foreclosed from defaulting borrowers.

**17.2 Miscellaneous Expenses**

	Note	2015	2014	2013
Meals and other incentives		P 3,443,145	P 1,083,741	P 1,847,509
Office supplies		3,128,221	4,095,610	3,751,588
Loss on sale of acquired assets		2,942,680	-	-
Management and professional fees		2,211,778	2,883,654	2,429,827
Annual fees for PSE, SEC, and Bancnet		1,717,039	1,187,426	467,103
Transportation and travel		1,538,584	2,769,161	1,436,678
Representation and entertainment		1,398,347	2,554,146	2,893,410
PCHC charges		1,073,295	1,591,342	918,533
BSP Supervision fees		998,332	910,774	808,538
Advertising and publicity		634,183	602,621	981,003
Association dues		632,933	450,309	861,404
Interest expense on post-employment defined benefit obligation	18.2	606,046	653,384	505,970
Christmas party expenses		444,973	182,888	101,008
Loss on sale of bank premise		51,214	-	63,263
Foreign exchange losses – net		-	172,566	-
Rental fee on motor vehicles		-	112,134	106,200
Others		6,121,316	7,445,615	8,170,227
		<b><u>P 26,942,086</u></b>	<b><u>P 26,695,371</u></b>	<b><u>P 25,342,261</u></b>

Others includes seminar and training expense, penalty on BSP - Agri-Agra loan compliance, Bank giveaways and other branch related expenses.

**18. EMPLOYEE BENEFITS**

**18.1 Salaries and Employee Benefit Expense**

Expenses recognized for salaries and other employee benefits are presented below.

	2015	2014	2013
Short-term employee benefits	P 96,186,678	P103,055,283	P 97,400,196
Post-employment – defined benefits	<u>3,678,252</u>	<u>3,778,676</u>	<u>2,811,373</u>
	<b><u>P 99,864,930</u></b>	<b><u>P106,833,959</u></b>	<b><u>P100,211,569</u></b>

**18.2 Post-employment Defined Benefit Plan**

*(a) Characteristics of the Defined Benefit Plan*

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's Trust Department. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2015 and 2014.

The amounts of post-employment benefit obligation recognized in the statements of financial position (as part of Other Liabilities account – see Note 15) are determined as follows:

	<u>2015</u>	<u>2014</u>
Present value of the obligation	<b>P 22,306,751</b>	P 24,105,479
Fair value of plan assets	<b>( 9,800,428)</b>	( 11,686,504)
	<b><u>P 12,506,323</u></b>	<b><u>P 12,418,975</u></b>

The movements in the present value of the defined benefit post-employment obligation are as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	<b>P 24,105,479</b>	P 23,266,881
Current service cost	<b>3,678,252</b>	3,778,676
Interest expense	<b>1,176,347</b>	1,077,257
Remeasurements – actuarial losses (gains) arising from:		
Experience adjustments	<b>( 7,912,183)</b>	( 3,194,065)
Changes in financial assumptions	<b>4,504,919</b>	( 823,270)
Changes in demographic assumptions	<b>199,946</b>	-
Benefits paid	<b>( 3,446,009)</b>	-
Balance at end of year	<b><u>P 22,306,751</u></b>	<b><u>P 24,105,479</u></b>

The movements in the fair value of plan assets are presented below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	<b>P 11,686,504</b>	P 9,154,934
Contributions to the plan	<b>1,200,275</b>	2,184,891
Interest income	<b>570,301</b>	423,873
Return on plan assets (excluding amounts included in net interest)	<b>( 210,643)</b>	( 77,194)
Benefits paid	<b>( 3,446,009)</b>	-
Balance at end of year	<b><u>P 9,800,428</u></b>	<b><u>P 11,686,504</u></b>

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	<u>2015</u>		<u>2014</u>
Cash and cash equivalents	<b>P 2,035,067</b>	P	7,580,895
Quoted equity securities –			
Holding firms	<b>3,843,100</b>		1,270,520
Debt securities –			
Corporate bonds	<u><b>3,922,261</b></u>		<u>2,835,089</u>
	<u><b>P 9,800,428</b></u>	P	<u>11,686,504</u>

The fair value of the above equity securities (categorized under Level 1) are determined based on quoted market prices in an active market, while the fair value of corporate debt securities (categorized under Level 2) are derived from benchmark government bonds with similar maturities.

The plan assets earned returns of P0.4 million and P0.3 million in 2015 and 2014, respectively, and incurred a loss of P0.4 million in 2013.

Plan assets of the post-employment plan include cash deposits of P0.02 million and P1.3 million in the Bank as of December 31, 2015 and 2014, respectively.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Reported in profit or loss:</i>			
Current service cost	<b>P 3,678,252</b>	P 3,778,676	P 2,811,373
Net interest expense	<u><b>606,046</b></u>	<u>653,384</u>	<u>505,970</u>
	<u><b>P 4,284,298</b></u>	<u>P 4,432,060</u>	<u>P 3,317,343</u>
<i>Reported in other comprehensive income (loss):</i>			
Actuarial losses (gains) arising from changes in:			
Experience adjustments	<b>(P 7,912,183)</b>	(P 3,194,065)	(P 676,506)
Financial assumptions	<b>4,504,919</b>	( 823,270)	3,249,018
Demographic assumptions	<b>199,946</b>	-	-
Return on plan assets (excluding amounts included in net interest expense)	<u><b>210,643</b></u>	<u>77,194</u>	<u>897,946</u>
	<u><b>(P 2,996,675)</b></u>	<u>(P 3,940,141)</u>	<u>P 3,470,458</u>

Current service cost is presented in the statements of profit or loss as part of Salaries and Employee Benefits under the Other Operating Expenses account.

The net interest expense is included in Miscellaneous under Other Operating Expenses account (see Note 17.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	<u>2015</u>	<u>2014</u>
Discount rates	5.27%	4.9%
Expected rate of salary increases	5.0%	3.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 20 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. As of end of 2015, the plan investments are 40% placed in corporate debt securities with the remaining assets invested in cash and cash equivalents and equity securities. Due to the long-term nature of the plan obligation, a level of continuing equity investments is still an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2015 and 2014 are as follows:

	<u>Impact on Post-employment Defined Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b>December 31, 2015</b>			
Discount rate	+/- 1.0%	(P 3,045,273)	P 3,765,802
Salary growth rate	+/- 2.0%	8,024,376	( 5,479,033)
December 31, 2014			
Discount rate	+/- 1.0%	(P 2,928,295)	P 3,549,573
Salary growth rate	+/- 2.0%	7,561,299	( 5,334,247)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to ensure that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.



A larger portion of the plan assets as of December 31, 2015 and 2014 are invested in corporate debt securities. In view of the long-term nature of the plan obligation, the Bank may re-allocate its plan assets and increase the level of its investments in equity and debt securities. The Bank believes that a combination of corporate debt securities and equity securities offer the best returns over the long term with an acceptable level of risk. Corporate debt securities and equities included in the plan assets are investments in a diversified portfolio of local blue chip entities.

There has been no change in the Bank's strategies to manage its risks from previous periods.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P12.5 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P4.6 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>2015</u>		<u>2014</u>
Within one year	<b>P 920,577</b>	P	1,885,013
More than one year to five years	<b>4,862,879</b>		6,100,243
More than five years to ten years	<b>14,490,106</b>		15,408,757
More than 10 years to 15 years	<b>18,467,235</b>		22,888,316
More than 15 years to 20 years	<b>54,763,426</b>		50,304,502
More than 20 years	<b><u>559,427,005</u></b>		<u>289,758,424</u>
	<b><u>P 652,931,228</u></b>	P	<u>386,345,255</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

## 19. CURRENT AND DEFERRED TAXES

The components of tax expense (income) relating to profit or loss and other comprehensive income for the years ended December 31 are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Minimum corporate income tax (MCIT) at 2% – RBU	<b>P 1,546,630</b>	P 3,354,623	P 3,524,003
Final tax at 20% and 7.5%	<b>5,421,884</b>	3,484,805	2,307,967
MCIT – FCDU	<u>9,588</u>	<u>13,537</u>	<u>18,723</u>
	<b>6,978,102</b>	6,852,965	5,850,693
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>( 748,455)</u>	<u>( 783,699)</u>	<u>11,316,041</u>
	<b><u>P 6,229,647</u></b>	<b><u>P 6,069,266</u></b>	<b><u>P 17,166,734</u></b>
<i>Reported in other comprehensive income:</i>			
Deferred tax expense (income) relating to:			
Remeasurement of defined benefit post-employment plan	<b>P 899,003</b>	P 1,182,042	(P 1,041,137)
Fair valuation of AFS securities	<u>557,230</u>	<u>-</u>	<u>( 397,944)</u>
	<b><u>P 1,456,233</u></b>	<b><u>P 1,182,042</u></b>	<b><u>(P 1,439,081)</u></b>

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Tax on pretax profit (loss) at 30%	<b>(P 24,127,392)</b>	(P 19,492,269)	P 5,248,702
Adjustments for income subjected to lower income tax rates	<b>( 2,785,258)</b>	( 1,742,402)	( 1,153,984)
Tax effects of:			
Unrecognized deferred tax assets	<b>27,002,243</b>	21,943,387	7,828,451
Non-deductible interests and other expenses	<b>3,591,145</b>	2,497,685	3,309,178
Reversal of previously unrecognized deferred tax assets	<b>3,479,921</b>	-	-
Non-taxable income	<b>( 681,725)</b>	-	( 18,066)
Tax exempt income	<b>( 249,287)</b>	( 110,449)	( 320,215)
Expired net operating loss carryover (NOLCO)	-	2,973,314	23,618
Expired MCIT	<u>-</u>	<u>-</u>	<u>2,549,050</u>
Tax expense	<b><u>P 6,229,647</u></b>	<b><u>P 6,069,266</u></b>	<b><u>P 17,166,734</u></b>

The net deferred tax assets presented under Other Resources account as of December 31 relate to the following (see Note 13):

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Allowance for impairment	<b>P 8,626,146</b>	P 8,626,146
Defined benefit post-employment Obligation	<b>3,751,898</b>	3,725,694
Unamortized past-service cost	<b>239,590</b>	334,070
Unrealized foreign exchange loss	<u>-</u>	<u>51,770</u>
	<b><u>12,617,634</u></b>	<u>12,737,680</u>
Deferred tax liabilities:		
Profit on assets sold under installment method	<b>( 5,502,938)</b>	( 5,805,351)
Accrued rent under PAS 17	<b>( 1,175,650)</b>	( 842,735)
Fair value gains on AFS securities	<b>( 1,361,230)</b>	( 804,000)
	<b><u>( 8,039,818)</u></b>	<u>( 7,452,086)</u>
Net deferred tax assets	<b><u>P 4,577,816</u></b>	<u>P 5,285,594</u>

Deferred tax expense (income) charged to profit or loss and other comprehensive income for the years ended December 31 are as follows.

	<u>Profit or Loss</u>			<u>Other Comprehensive Income</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Defined benefit						
post-employment obligation	<b>(P 925,207)</b>	(P 674,151)	(P 520,070)	<b>P 899,003</b>	P 1,182,042	(P 1,041,137)
Accrued rent under PAS 17	<b>332,915</b>	125,547	150,468	-	-	-
Profit on assets sold under installment method	<b>( 302,413)</b>	( 3,087,523)	8,523,403	-	-	-
Past-service cost amortization	<b>94,480</b>	94,480	94,480	-	-	-
Unrealized foreign exchange gains (loss)	<b>51,770</b>	( 215,366)	163,596	-	-	-
NOLCO	-	2,973,314	23,618	-	-	-
MCIT	-	-	2,549,050	-	-	-
Allowance for impairment	-	-	314,639	-	-	-
Unrealized foreign exchange losses	-	-	16,857	-	-	-
Fair value gains on AFS securities	<u>-</u>	<u>-</u>	<u>-</u>	<b><u>557,230</u></b>	<u>-</u>	<u>( 397,944)</u>
Net deferred tax expense (income)	<b><u>(P 748,455)</u></b>	<u>(P 783,699)</u>	<u>P 11,316,041</u>	<b><u>P 1,456,233</u></b>	<u>P 1,182,042</u>	<u>(P 1,439,081)</u>

The Bank is subject to the MCIT, which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2015, 2014 and 2013, the Bank is liable for MCIT of P1.5 million, P3.4 million and P3.5 million, respectively since it has no regular taxable income in those years.

Based on the financial and operating forecasts of the Bank, management believes that it may not be able to generate taxable income in the near future, enough to utilize in full the benefits of certain temporary differences, MCIT and NOLCO after it has applied the remaining and available MCIT and NOLCO incurred in prior years. Accordingly, the Bank has not recognized the corresponding deferred tax assets as of December 31, 2015 and 2014 as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Tax Base</u>	<u>Tax Effect</u>	<u>Tax Base</u>	<u>Tax Effect</u>
NOLCO	<b>P 160,442,441</b>	<b>P 48,132,732</b>	P 50,204,388	P 15,061,316
Allowance for impairment	<b>12,212,513</b>	<b>3,663,754</b>	25,998,786	7,799,636
MCIT	<b><u>8,425,256</u></b>	<b><u>8,425,256</u></b>	<u>10,358,547</u>	<u>10,358,547</u>
	<b><u>P 181,080,210</u></b>	<b><u>P 60,221,742</u></b>	<u>P 86,561,721</u>	<u>P 33,219,499</u>

The details of the Bank's MCIT and the period until which they can be applied against RCIT are as follows:

<u>Year Incurred</u>	<u>Amount</u>	<u>Expired</u>	<u>Balance</u>	<u>Year of Expiry</u>
2015	P 1,546,630	P -	P 1,546,630	2018
2014	3,354,623	-	3,354,623	2017
2013	3,524,003	-	3,524,003	2016
2012	<u>3,479,921</u>	<u>( 3,479,921)</u>	<u>-</u>	2015
	<b><u>P 11,905,177</u></b>	<b><u>(P 3,479,921)</u></b>	<b><u>P 8,425,256</u></b>	

The breakdown of NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred, is shown below.

<u>Year Incurred</u>	<u>Original Amount</u>	<u>Expired</u>	<u>Remaining Balance</u>	<u>Year of Expiry</u>
2015	P 110,238,053	P -	P 110,238,053	2018
2014	35,918,638	-	35,918,638	2017
2013	<u>14,285,750</u>	<u>-</u>	<u>14,285,750</u>	2016
	<b><u>P 160,442,441</u></b>	<b><u>P -</u></b>	<b><u>P 160,442,441</u></b>	

The Bank claimed itemized deductions in all years presented.

## 20. TRUST OPERATIONS

Investments amounting to P556.0 million and P223.3 million held by the Bank as of December 31, 2015 and 2014, respectively, in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank (see Note 24.3).

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

- (a) Investment in government securities of P10.0 million deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 9); and,

(b) A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's regulatory capital. As of December 31, 2015, 2014 and 2013, the reserve for trust operations amounted to P1.1 million, P0.8 million and P0.7 million, respectively, and is shown as Surplus Reserves in the statements of changes in equity.

Income from trust operations, net of the related expenses amounted to P2.6 million, P1.5 million and P1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, and are shown as part of Miscellaneous Income in the statements of profit or loss (see Note 17.1).

## 21. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into varying transactions with its related parties, certain directors, officers, stockholders, and related interests (DOSRI), and with its funded retirement plan.

The summary of the Bank's significant transactions and the related outstanding balances with DOSRI and other related parties as of and for the years ended December 31, 2015 and 2014 are as follows (in thousands):

Related Party Category	Note	2015		2014	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
<b>Stockholders:</b>					
Deposit liabilities	21.2	P 271,440	P 15,725	P 294,446	P 298,701
Interest expense	21.2	80	-	1,079	-
<b>Related Parties Under Common Ownership:</b>					
Loans and receivables	21.1	318,960	217,320	351,382	347,816
Interest income	21.1	18	29		32
Deposit liabilities	21.2	19,452,025	1,285,266	100,872	613,080
Interest expense	21.2	6,889	-	20	4
Rent income	21.4	3,497	-		
Rent expense	21.4	29,059	-	2,858	137
Sale of bank premise	21.5	-	-	81,679	81,679
<b>Officers and Employees:</b>					
Loans and receivables	21.1	9,083	3,927	5,834	3,927
Interest income	21.1	-	-	173	-
Deposit liabilities	21.2	16,139	-	804	1,120
Interest expense	21.2	8	-	1	-
Retirement fund	21.3	-	-	2,532	11,687
<b>Key Management Personnel –</b>					
Compensation	21.6	12,712	-	13,154	-

All of the Bank's loans and receivables from related parties have been reviewed for indications of impairment. Based on management's assessment, no impairment losses are required to be recognized on these financial assets at the end of each reporting period.

### ***21.1 Loans to Related Parties/DOSRI***

Under existing policies of the Bank, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio (net of loans secured by hold-out on deposits) of the Bank, whichever is lower.

The following additional information relates to the DOSRI loans:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total outstanding DOSRI loans	<b>P378,579,645</b>	P 351,743,333	P 339,050,420
% to total loan portfolio	<b>14.90%</b>	16.13%	18.06%
% of unsecured DOSRI loans to total DOSRI loans	<b>0.00%</b>	0.00%	0.00%
% of past due DOSRI loans to total DOSRI loans	<b>0.00%</b>	2.39%	0.00%
% of non-performing DOSRI loans to total DOSRI loans	<b>0.00%</b>	2.39%	0.00%

DOSRI loans bear annual interest rates of 4.5% to 12.5% both in 2015 and 2014 and 6.7% to 12.5% in 2013. These loans are secured through hold-out deposit and are payable within one month to six months.

Total loan releases and collections in 2015 amounted to P300.9 million and P274.1 million, respectively. Total loan releases and collections in 2014, on the other hand, amounted to P357.0 million and P66.0 million, respectively.

### ***21.2 Deposit Liabilities to Related Parties/DOSRI***

As of December 31, 2015 and 2014, deposit liabilities to related parties amount to P529.6 million and P912.9 million, respectively, of which, P300 million and P533.4 million, respectively, are being held by the Bank as collateral against loans and receivables from related parties. The related interest expense incurred by the Bank from these deposits amounted to P0.8 million and P1.1 million in 2015 and 2014, respectively.

### ***21.3 Transactions with the Retirement Plan***

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2015 and 2014 is disclosed in Note 18.2.

Total deposits of the retirement fund to the Bank amounted to P0.02 million and P1.3 million as of December 31, 2015 and 2014, respectively.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P0.3 million and P1.2 million investments in the shares of stock of the Bank as of December 31, 2015 and 2014, respectively, while debt securities is composed of investments in corporate bonds.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments in the Bank's shares of stock covered by any restriction and liens.

The contributions made by the Bank to the retirement plan in 2015 and 2014 amounted to P1.2 million and P2.2 million, respectively (see Note 18.2).

### ***21.4 Lease Transactions***

The Bank, as a lessee, has lease agreements with related parties under common ownership (see Note 24.1). In relation to these lease agreements, the Bank made certain security deposits totaling P7.4 million and P6.9 million as of December 31, 2015 and 2014, respectively, and are presented as part of Other Resources account in the statements of financial position (see Note 13). Rent expense arising from these leases are presented as part of Occupancy in the statements of profit or loss.

The Bank also has lease agreements for the lease of its investment properties to certain related parties under common ownership. Rent income recognized on these leases are presented as Rental income under Miscellaneous Income account in the statements of profit or loss (see Notes 12, 17.1 and 24.2).

Lease agreements with related parties are either subject to fixed rental rate or 5% to 10% escalation rates. These are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of each reporting period.

### ***21.5 Sale of Bank Premise***

In 2014, the Bank sold a certain parcel of land to a related party under common ownership, with cost amounting to P56.1 million for a total consideration of P81.7 million. The outstanding balance is presented as part of Sales contract receivables under the Loans and Receivables account in the 2014 statement of financial position. This is payable until 2017 and bears an annual interest rate of 7.0% (see Notes 10 and 11).

## 21.6 Key Management Personnel Compensation

The compensation provided to key management personnel is broken down as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Short-term employee benefits	<b>P 12,449,508</b>	P 12,914,174	P 11,695,364
Post-employment benefits	<u>212,067</u>	<u>240,203</u>	<u>217,580</u>
	<b><u>P 12,711,575</u></b>	<b><u>P 13,154,377</u></b>	<b><u>P 11,912,944</u></b>

## 22. EARNINGS (LOSSES) PER SHARE

Earnings (losses) per share is computed as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net profit (loss)	<b>(P 86,654,287)</b>	(P 71,043,497)	P 328,940
Divided by the weighted average number of outstanding common shares	<u>72,764,998</u>	<u>72,764,998</u>	<u>72,764,998</u>
Earnings (loss) per share	<b><u>(P 1.19)</u></b>	<b><u>(P 0.98)</u></b>	<b><u>P 0.00</u></b>

The Bank has no potentially dilutive shares (i.e., options, warrants, convertible instruments, contingently issuable shares if the conditions are satisfied, etc.); hence, no information on diluted earnings per share is presented as it is the same with the basic earnings per share.

## 23. SELECTED PERFORMANCE INDICATORS

Following are some measures of the Bank's financial performance and indicators for the past three years:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Return on average equity	<b>-13.33%</b>	-9.79%	0.04%
Return on average resources	<b>-1.91%</b>	-1.84%	0.01%
Net interest margin	<b>4.33%</b>	5.95%	8.41%
Net profit margin	<b>-42.85%</b>	-32.06%	0.13%
Interest rate coverage	<b>-83.27%</b>	-98.13%	226.29%
Debt-to-equity	<b>699.27%</b>	506.56%	361.54%
Resources-to-equity	<b>799.27%</b>	606.56%	461.54%
CAR	<b>22.41%</b>	29.19%	31.61%

## 24. COMMITMENTS AND CONTINGENCIES

### 24.1 Operating Lease Commitments – Bank as Lessee

The Bank leases the premises where some of its branches and extension offices are situated for a period of one to ten years, renewable upon mutual agreement between the parties and with terms of one to seven years (see Note 21.4). These leases are accounted for as operating leases which either require fixed rental rate over the term of the lease or with stipulated annual escalation rate of 5% to 10%.



As of December 31, future minimum rental payments under these operating leases contracts are as follows:

	<u>2015</u>	<u>2014</u>
Within one year	<b>P 15,152,140</b>	P 8,299,016
After one year but not more than five years	<b>34,227,684</b>	16,403,378
More than five years	<u><b>39,066,718</b></u>	<u>15,134,782</u>
	<u><b>P 88,446,542</b></u>	<u>P 39,837,176</u>

The Bank's total rent expense (shown as Occupancy account in the statements of profit or loss) amounted to P29.6 million in 2015, P28.2 million in 2014, and P27.8 million in 2013.

#### ***24.2 Operating Lease Commitments – Bank as Lessor***

The Bank is a lessor under non-cancellable operating lease agreements for the lease of its certain investment properties. The leases have terms of five to ten years, with renewal options, and include annual escalation rate of 5% to 10%. The future minimum lease payments under these non-cancellable operating leases are as follows as of December 31:

	<u>2015</u>	<u>2014</u>
Within one year	<b>P 5,163,139</b>	P 3,505,876
After one year but not more than five years	<b>16,050,654</b>	12,151,182
More than five years	<u><b>3,384,029</b></u>	<u>5,315,754</u>
	<u><b>P 24,597,822</b></u>	<u>P 20,972,812</u>

The total rent income on investment properties amounted to P5.1 million, P4.1 million and P3.4 million in 2015, 2014, and 2013, respectively, and is presented as Rental income under Miscellaneous Income in the statements of profit or loss (see Notes 12, 17.1 and 21.4).

#### ***24.3 Others***

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the financial statements. Management believes that as of December 31, 2015, losses, if any, which may arise from these commitments and contingencies will not have a material effect on the Bank's financial statements.

Following is a summary of the Bank's commitments and contingent accounts as of December 31:

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Trust department accounts	20	<b>P 556,010,364</b>	P 223,324,356
Deficiency claims receivable		<b>1,455,890</b>	1,452,559
Outward bills for collection		-	26,844

## 25. NOTES TO STATEMENTS OF CASH FLOWS

The following information supplement those presented in the statements of cash flows for the periods presented with respect to the Bank's non-cash operating and investing activities:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Settlement of loans receivable arising from property/jewelry foreclosures		<b>P 24,384,066</b>	P 97,452,138	P245,045,761
Unrealized fair value gains (losses) on AFS securities	9	<b>3,461,935</b>	( 1,115,977)	( 2,616,050)
Sales contract receivable from sale of bank premise	11	-	81,678,500	-

For statements of cash flows purposes, the amount of due from other banks as of December 31, 2015 and 2014 considered as cash and cash equivalents follows:

	<u>Note</u>	<u>2015</u>	<u>2014</u>
Due from other banks	8	<b>P 210,773,710</b>	P 220,538,904
Due from other banks not considered as cash and cash equivalents		<b>( 18,095,776)</b>	( 55,544,317)
		<b><u>P 192,677,934</u></b>	<b><u>P 164,994,587</u></b>

## 26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS. All information are presented in their absolute amounts.

### ***26.1 Requirements Under RR No. 15-2010***

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

#### ***(a) Gross Receipts Tax (GRT)***

In lieu of value-added taxes, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Sections 121 of the amended Tax Code.

In 2015, the Bank reported total GRT amounting to P9,004,417, which is shown as part of Taxes and Licenses account in the 2014 statement of profit or loss [see Note 26.1(f)].

(b) *Documentary Stamp Tax (DST)*

The Bank is enrolled under the Electronic DST System. In general, the Bank's DST transactions arise from the execution of debt instruments, security documents, and bills of exchange.

For the year ended December 31, 2015, DST affixed amounted to P11,863,779, representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P5,011,117 were charged to the Banks's clients; hence, not reported as part of taxes and licenses in the 2015 statement of profit or loss [see Note 26.1(f)].

(c) *Customs Duties and Tariff Taxes*

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2015.

(d) *Excise Tax*

The Bank did not have any transaction in 2015 which is subject to excise tax.

(e) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2015 are shown below.

Compensation and employee benefits	P	7,430,154
Final		5,003,916
Expanded		<u>2,765,219</u>
	<b>P</b>	<b><u>15,199,289</u></b>

(f) *Taxes and Licenses*

The details of Taxes and Licenses account shown in the 2015 statement of profit or loss follows:

	<u>Note</u>	
GRT	26.1(a)	P 9,004,417
DST	26.1(b)	6,852,662
Local taxes and business permits		1,202,852
Real property taxes		<u>486,284</u>
		<b><u>P 17,546,215</u></b>

(g) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2015, the Bank does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

## 26.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts of revenues reflected in the 2015 statement of profit or loss.

### (a) Taxable Revenues

The Banks's taxable revenues at regular tax rate (excluding FCDU operations) for the year ended December 31, 2015 amounted to P173,605,743.

### (b) Deductible Costs of Services

Deductible costs of services at regular tax rate for the year ended December 31, 2015 comprise the following:

Salaries and employee benefits	P 97,095,840
Interest expense	31,009,936
Miscellaneous	<u>7,408,815</u>
	<b><u>P 135,514,591</u></b>

### (c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2015, which are subject to regular tax rate are shown below.

Service charges and fees	P 18,073,584
Penalty on loans	6,757,480
Rental income	3,497,996
Legal and appraisal fees	2,974,513
Income from Trust Department	2,564,244
Interbank ATM transactions	2,131,738
Gains on assets acquired/exchanged	1,393,020
Income from re-ordered checks	970,984
Others	<u>876,793</u>
	<b><u>P 39,240,352</u></b>

(d) *Itemized Deductions*

The details of itemized deductions at regular tax rate for the year ended December 31, 2015 are as follows:

Outside services	P	37,465,355
Rental		29,065,661
Communication, light and water		24,710,447
Depreciation and amortization		23,096,159
Taxes and licenses		17,546,215
Insurance		15,756,861
Fuel and oil		10,409,975
Amortization of intangibles		5,454,580
Litigation/assets acquired		1,639,827
Repairs and maintenance		3,263,590
Office supplies		3,128,221
Transportation and travel		1,538,584
Representation and entertainment		1,398,347
Management and consultancy fees		1,200,301
Advertising		634,183
Miscellaneous		<u>11,261,251</u>
	<b>P</b>	<b><u>187,569,557</u></b>

**CITYSTATE SAVINGS BANK, INC.**  
**List of Supplementary Information**  
**December 31, 2015**

<u>Schedule</u>	<u>Content</u>	<u>Page No.</u>
<b>Schedules Required under Annex 68-E of the Securities Regulation Code (SRC) Rule 68</b>		
A	Financial Assets	
	Financial Assets at Fair Value Through Profit or Loss	*
	Held-to-maturity Investments	*
	Available-for-sale Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	2
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	*
D	Intangible Assets - Other Assets	3
E	Long-term Debt	*
F	Indebtedness to Related Parties	*
G	Guarantees of Securities of Other Issuers	*
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**Other Required Information**

Reconciliation of Retained Earnings Available for Dividend Declaration

Schedule of Philippine Financial Reporting Standards and Interpretations

    Adopted by the Securities and Exchange Commission and the

    Financial Reporting Standards Council as of December 31, 2015

Schedule of Financial Indicators\*\*

*\* These schedules and supplementary information are not included as these are not applicable to Citystate Savings Bank, Inc.*

*\*\* This schedule is not covered by the auditor's report in accordance with the SRC guidelines*

**CITYSTATE SAVINGS BANK, INC.**  
**Schedule A - Financial Assets (Available-for-sale Securities)**  
**December 31, 2015**

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds and notes	Amounts shown in the balance sheet	Valued based on market quotation at end of reporting period	Income received and accrued
<b>A. GOVERNMENT SECURITIES:</b>				
Bureau of treasury	10,000,000	10,414,818	10,232,596	506,944
Bureau of treasury	10,000,000	10,414,818	10,232,596	506,944
First Metro Investment Corp	10,000,000	9,885,663	9,807,108	506,944
First Metro Investment Corp	10,000,000	9,885,663	9,807,108	506,944
<b>B. FINANCIAL INSTITUTIONS</b>				
Metrobank LTNCD	20,000,000	20,000,000	20,000,000	866,056
RCBC	1,000,000			21,250
RCBC	9,000,000			191,250
RCBC Capital Corp	5,000,000			16,499
<b>C. PRIVATE CORPORATION</b>				
SM Investment Corp. (SMIC) commercial paper	580,506	587,129	587,129	30,243
South Luzon Tollway Corporation (SLTC)	5,000,000	4,822,131	4,822,131	154,629
Aboitiz Equity Ventures Series A Bond	30,000,000	30,600,000	30,600,000	529,210
SM Prime Holdings, Inc. (SMPH)				
Series D	70,000,000	70,317,632	70,317,632	315,665
Series E	30,000,000	29,997,120	29,997,120	143,970
San Miguel Corporation (SMC) preferred shares				
Subseries 2-D	12,750,000	14,450,000	14,450,000	214,308
Subseries 2-E	15,225,000	15,428,000	15,428,000	270,191
Subseries 2-F	25,372,500	27,030,170	27,030,170	484,563
Sta. Lucia Land Inc.				
Series A	50,000,000	49,999,135	49,999,135	84,105
Series B	20,000,000	19,999,656	19,999,656	33,575
HBC Inc. preferred shares	50,000,000	50,000,000	50,000,000	2,833,333
<b>B. LOCAL GOVERNMENT -</b>				
INFANTA WATER BOND-DBP *	35,314,284	35,314,284	35,314,284	1,982,908
<b>C. CLUB SHARES</b>				
WACK-WACK Country Club and Golf Course	-	15,500,000	15,500,000	-
Forest Hills Country Club	-	70,000	70,000	-
<b>Total</b>	<b>419,242,290</b>	<b>P 424,716,219</b>	<b>P 424,194,665</b>	<b>P 10,199,531</b>

\* Carried at cost.

**CITYSTATE SAVINGS BANK, INC.**  
**Schedule B - Amounts Receivable from Directors, Officers, Employees, Related  
Parties and Principal Stockholders (Other than related parties)**  
**December 31, 2015**

Name and Designation of debtor	Balance at beginning of period	Deductions			Current	Non Current	Balance at end of period
		Additions	Amounts collected	Amounts written off			
Due from Related Parties (Loans & Discounts)	P 351,743,255	P 66,835,684	P 36,244,761	P -	P 382,334,178	P -	P 382,334,178
Due from Affiliates	<u>244,060</u>	<u>832,095</u>	<u>4,660</u>	<u>-</u>	<u>1,071,494</u>	<u>-</u>	<u>1,071,494</u>
<b>TOTAL</b>	<b><u>P 351,987,315</u></b>	<b><u>P 67,667,779</u></b>	<b><u>P 36,249,421</u></b>	<b><u>P -</u></b>	<b><u>P 383,405,672</u></b>	<b><u>P -</u></b>	<b><u>P 383,405,672</u></b>



**CITYSTATE SAVINGS BANK, INC.**  
**Schedular D - Intangible Assets - Other Assets**  
**December 31, 2015**

Description	Beginning Balance	Additions at cost	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending Balance
Branch licenses	P 32,500,000					P 32,500,000
Other Assets:						
TRUST INVESTMENT SYSTEM	P 2,128,000		P 1,905,948			P 222,052
SERVICE FEE FOR TRUST SYSTEM	140,000		81,667			58,333
SERVICE FEE FOR TRUST SYSTEM (Enhancement)	135,000		74,250			60,750
TRIPLE DES HOST COMPLIANCE DEFINITION	672,000		671,999			1
I.T. VULNERABILITY ASSESSMENT (LAGGUI)	150,000		149,999			1
I.T. VULNERABILITY ASSESSMENT (LAGGUI)	500,000		499,999			1
Sophos Anti-Virus software	80,000		79,999			1
Annual renewal Fortigate Software (internet Firewall)	27,090		27,089			1
WEB Hosting Windows E-Commerce Package	23,000		22,999			1
Software Window server	121,515		12,152			109,364
VPN Solutions/VPN Tunnels on Network connection	467,040		46,704			420,336
Oracle Database ENT Edition	4,600,000		460,000			4,140,000
IBM Oracle database	2,760,000		276,000			2,484,000
License Fee Host Interface Module connection(Finnacle)		980,000	98,000			882,000
Infosys Master services and License Agreement		15,659,070	1,565,907			14,093,163
(1) unit IBM server (Finacle)		106,000	10,600			95,400
Encoder for upgrading for the Finacle System		175,204	17,520			157,683
(2) units Fortigate Firewall (Finacle)		310,000	31,000			279,000
20% cost of IBM Oracle Database Edition w/ Linux processor		1,840,000	184,000			1,656,000
Services rendered for Encoders for Finacle Project		284,158	28,416			255,742
Training and Briefing for Finacle Projects		44,741	4,474			40,267
Encoder for upgrading for the Finacle System		536,905	53,691			483,215
Training and Briefing for Finacle Projects		72,732	7,273			65,459
Encoder for upgrading for the Finacle System		66,019	6,602			59,417
Training and Briefing for Finacle Projects		22,240	2,224			20,016
Sign off design and parameter set up Phase (USD105,000@ 43.627)		4,580,835	458,084			4,122,751
License fee for Host Interface Module (Finacle) (Infoserve)		980,000	98,000			882,000
Customization and phasing of Finacle Banking System (USD210,000)		9,165,870	916,587			8,249,283
Escan Antivirus		200,400	20,040			180,360
Training and Briefing for Finacle Projects		21,314	2,131			19,183
Training and Briefing for Finacle Projects		9,052	905			8,147
Additional Licenses on the Finacle System - Infosys Limited (USD 48,000)		2,116,608	211,661			1,904,947
SEC website Development by: Techcellar Business Solution		37,240	3,724			33,516
Software update license and support - Oracle Database Ent		1,473,301	147,330			1,325,971
Additional Program mini statement GI Link - Infoserve		491,780	49,178			442,602
1 lot Linux back up system		980,000	98,000			882,000
Finacle Bank System Full payment (44,310@43.37)		1,966,035	196,603			1,769,431
Finacle Bank System Full payment (8,190@44.37)		363,390	36,339			327,051
Fortigate FG, Forticare Firewall, anti virus, web filtering		91,000	9,100			81,900
Fortigate Firewall License		80,800	8,080			72,720
Acronis Back-up Linux windows Server		666,000	66,600			599,400
Technical support additional Users (\$49600@45.74)		2,268,704	226,870			2,041,834
BitFender anti Virus		115,000	19,167			95,833
Infoserve Software Maintenance	-	985,600	82,133	-	-	903,467
	11,803,645	46,689,999	8,969,044			49,524,600
<b>Total</b>	<b>P 44,303,645</b>	<b>P 46,689,999</b>	<b>P 8,969,044</b>	<b>-</b>	<b>-</b>	<b>P 82,024,600</b>



Title of Issue	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
	-	-	-	-	-	100
	-	-	-	-	-	18,500
	-	-	-	-	-	100
	-	-	-	-	-	87,100
	-	-	-	-	-	400
	-	-	-	-	-	49
	-	-	-	-	-	1,000
	-	-	-	-	-	2,700
	-	-	-	-	-	2,700
	-	-	-	-	-	1,000
	-	-	-	-	-	18,200
	-	-	-	-	-	63,100
	-	-	-	-	-	120,000
	-	-	-	-	-	200
	-	-	-	-	-	100
	-	-	-	-	-	1,000
	-	-	-	-	-	2,000
	-	-	-	-	-	400
	-	-	-	-	-	100
	-	-	-	-	-	1,300
	-	-	-	-	-	800
	-	-	-	-	-	1,000
	-	-	-	-	-	700
	-	-	-	-	-	500
	-	-	-	-	-	500
	-	-	-	-	-	200
	-	-	-	-	-	3,900
	-	-	-	-	-	5,000
	-	-	-	-	-	1,000
	-	-	-	-	-	7,000
	-	-	-	-	-	300
	-	-	-	-	-	100
	-	-	-	-	-	3,900
	-	-	-	-	-	200
	-	-	-	-	-	22,100
	-	-	-	-	-	20,700
	-	-	-	-	-	3,900
	-	-	-	-	-	9,400
	-	-	-	-	-	100
	-	-	-	-	-	200
	-	-	-	-	-	1,600
	-	-	-	-	-	200
	-	-	-	-	-	200
	-	-	-	-	-	100
	-	-	-	-	-	1
	-	-	-	-	-	100
	-	-	-	-	-	100
	-	-	-	-	-	110
	-	-	-	-	-	110
<b>Common Stock</b>	100,000,000	72,764,998	-	31,129,893	28,466,420	13,168,685

**CITYSTATE SAVINGS BANK, INC.**  
2nd Floor, Citystate Centre  
709 Shaw Boulevard, Pasig City

**Reconciliation of Retained Earnings Available for Dividend Declaration  
For the Year Ended December 31, 2015**

<b>Unappropriated Deficit at Beginning of Year</b>	<b>( P 43,844,665 )</b>
<b>Prior Years' Outstanding Reconciling Items, net of tax</b>	
Deferred tax income	( <u>12,591,430</u> )
<b>Unappropriated Deficit Not Available for Dividend Declaration at Beginning of Year</b>	<b>( 56,436,095 )</b>
<b>Net Loss Realized during the Year</b>	
Net loss per audited financial statements	( 86,654,287 )
Non-actual/unrealized income	
Deferred tax income	( 925,207 )
<b>Other Transactions during the Year</b>	
Appropriation for trust business	( <u>256,424</u> )
<b>Deficit</b>	<b>( <u>P 144,272,013</u> )</b>

**CITYSTATE SAVINGS BANK, INC.**  
**Schedule of Financial Indicators**  
**December 31, 2015, 2014 and 2013**

<u>Financial Indicator</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Return on average equity:			
$\frac{\text{Net profit}}{\text{Average total equity accounts}}$	<b>-13.33%</b>	-9.79%	0.04%
Return on average resources:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	<b>-1.91%</b>	-1.84%	0.01%
Net interest margin:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	<b>4.33%</b>	5.95%	8.41%
Net Profit margin:			
$\frac{\text{Net profit}}{\text{Revenues}}$	<b>-42.85%</b>	-32.06%	0.13%
Interest rate coverage:			
$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	<b>-83.27%</b>	-98.13%	226.29%
Debt to equity:			
$\frac{\text{Total liabilities}}{\text{Total equity}}$	<b>699.25%</b>	506.56%	361.54%
Resources to equity:			
$\frac{\text{Total resources}}{\text{Total equity}}$	<b>799.25%</b>	606.56%	461.54%

CITYSTATE SAVINGS BANK, INC.

Schedule of Philippine Financial Reporting Standards and Interpretations  
 Adopted by the Securities and Exchange Commission and the  
 Financial Reporting Standards Council as of December 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendment to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures <i>(effective when PFRS 9 is first applied)</i>			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* <i>(effective January 1, 2018)</i>			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendment to PFRS 10: Transition Guidance			✓
	Amendment to PFRS 10: Investment Entities			✓
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* <i>(effective date deferred indefinitely)</i>			✓
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception* <i>(effective January 1, 2016)</i>			✓
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Transition Guidance			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations* <i>(effective January 1, 2016)</i>			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendment to PFRS 12: Transition Guidance			✓
	Amendment to PFRS 12: Investment Entities			✓
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception* (effective January 1, 2016)			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts* (effective January 1, 2016)			✓
<b>Philippine Accounting Standards (PAS)</b>				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative* (effective January 1, 2016)			✓
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Bearer Plants* (effective January 1, 2016)			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization* (effective January 1, 2016)			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendment to PAS 27: Investment Entities	✓		
	Amendment to PAS 27: Equity Method in Separate Financial Statements* (effective January 1, 2016)			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely+B338)			✓
	Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception* (effective January 1, 2016)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings Per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization* (effective January 1, 2016)			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants* (effective January 1, 2016)			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2015 and are not early adopted by the Bank.

\*\* These standards have been adopted in the preparation of financial statements but the Bank has no significant transactions covered in both years presented.

CITYSTATE SAVINGS BANK, INC.  
 SCHEDULE OF ACCOUNTS RECEIVABLE  
 GENERAL ACCOUNTING DEPARTMENT  
 As of DECEMBER 31, 2015

SCHEDULE I

ACCOMTEE	BOOKED	AGING	PARTICULARS	AMOUNT	TOTAL
<b>AFFILIATES</b>					
PHILIPPINE GRAPHIC	5/11/2012	1329	Charge to ads placements as per memo Pay-off salary loan balance (Alegre, Frederick)		158,675.99
FORTUNE GEN INSURANCE	5/31/2012	1309	Unpaid Power and lights at Binondo Branch		264,080.21
	12/29/2015	2	Lease Rental Batangas (Dec 2015)		12,138.00
ETERNAL PLANS	3/27/2009	2470	For the period February 23, 2009-March 22, 2009	12,500.00	
	4/23/2009	2443	For the period March 23, 2009 - April 22, 2009	12,500.00	25,000.00
	11/27/2015	34	Lease Rental Batangas (Jan-Oct 2015)		89,495.30
	12/29/2015	2	Lease Rental Batangas (Dec 2015)		8,949.35
FORTUNE CARE	12/29/2015	2	Lease Rental Batangas (Dec 2015)		13,930.56
<b>TOTAL</b>					<b>572,269.41</b>

Prepared by:

MARTIN JERRY E. MACHADO  
 AVP- Comptroller

CITYSTATE SAVINGS BANK, INC.  
 SCHEDULE OF ACCOUNTS PAYABLE - AFFILIATES  
 GENERAL ACCOUNTING DEPARTMENT  
 AS OF DECEMBER 31, 2015

**SCHEDULE II**

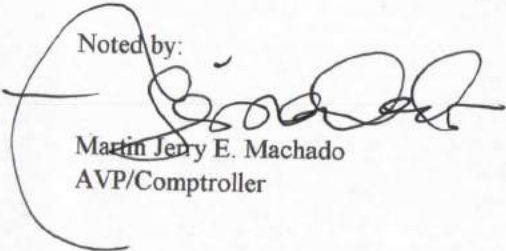
Date Booked	Accountee	Particular	Amount
9/9/2015	Aliw Broadcasting	Difference in Salary Loan Remittance	1,116.00
9/9/2015	Asian Security & Investigation Agency	Difference in Salary Loan Remittance	3,472.50
8/25/2015	Cattleya Steam Laundry	Difference in Salary Loan Remittance	3,252.00
9/10/2015	Cherry Blossoms Hotel	Difference in Salary Loan Remittance	879.00
8/25/2015	Citystate Tower Hotel	Difference in Salary Loan Remittance	993.00
8/25/2015	Dahlia Hotel	Difference in Salary Loan Remittance	678.00
9/9/2015	Gencars, Inc.	Difference in Salary Loan Remittance	3.00
9/9/2015	Hillcrest Hotel	Difference in Salary Loan Remittance	63.00
9/9/2015	Orchids Hotel, Corp.	Difference in Salary Loan Remittance	17.00
9/9/2015	New Rosal Hotel	Difference in Salary Loan Remittance	380.25
9/9/2015	Vista Cinema	Difference in Salary Loan Remittance	5.00
9/9/2015	Vista Hotel Recto	Difference in Salary Loan Remittance	4,368.00
			15,226.75

Prepared by:



Rey Mark Napiza  
 Accounting Assistant

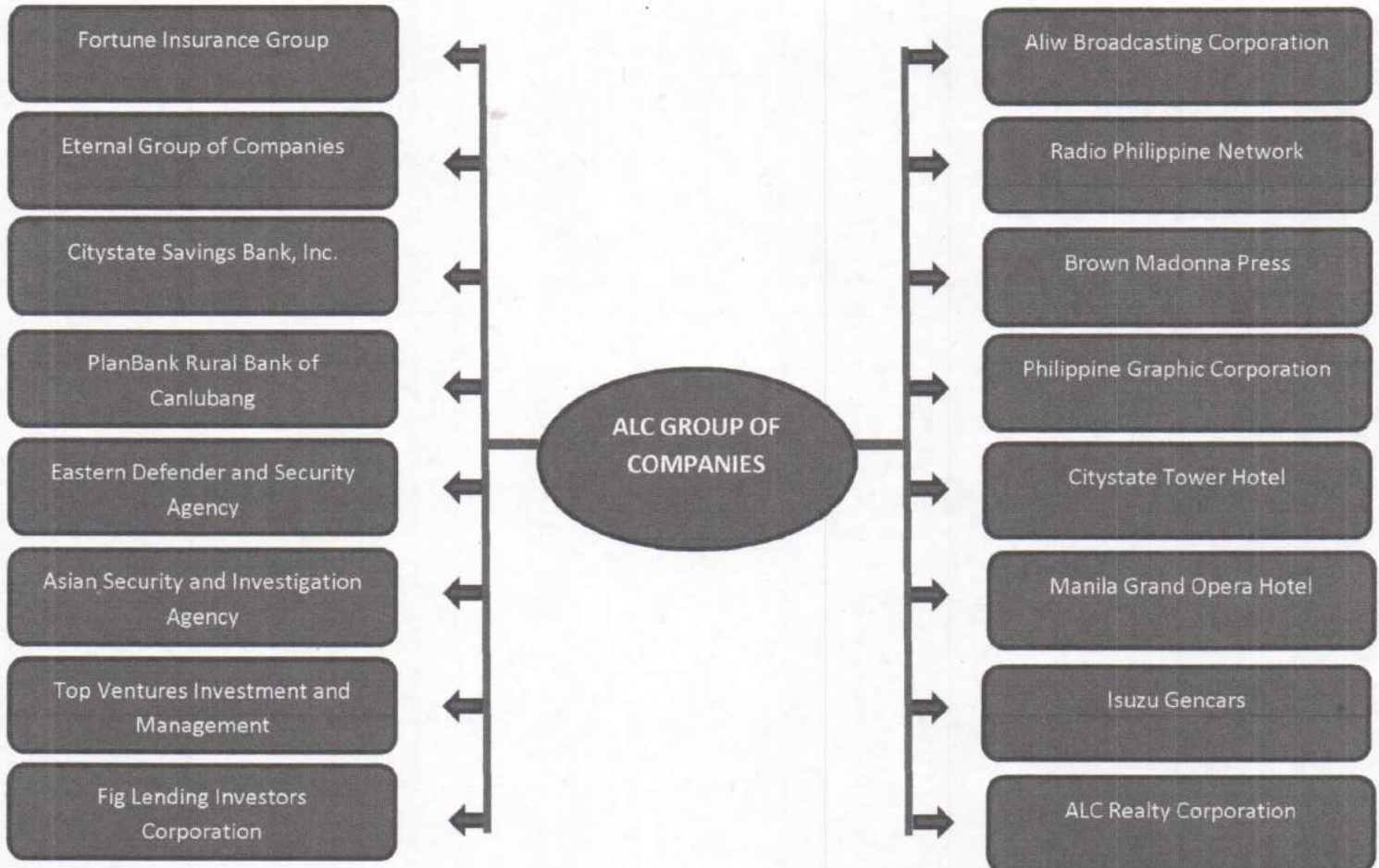
Noted by:



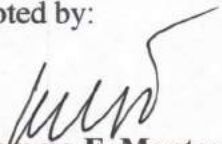
Martin Jerry E. Machado  
 AVP/Comptroller

### SCHEDULE III

A map of the conglomerate or group of companies showing the relationship between and among the company and its ultimate parent company, middle parent, subsidiaries, or co-subsidiaries, and associates.



Noted by:

  
**Gemma F. Montes**

Human Resources Department Head