

SECURITIES AND EXCHANGE
COMMISSION
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MAY 06 2016
MARKET REGULATION DEPT.
TIME: 11:30

CITYSTATE
SAVINGS BANK
We Take Care of You.

SECURITIES AND EXCHANGE
COMMISSION
RECEIVED
APR 25 2016
MARKET REGULATION DEPT.
TIME: 3:15

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

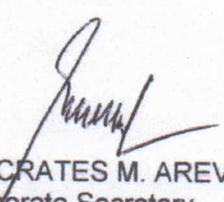
The Annual Meeting of Stockholders of Citystate Savings Bank will be held on Tuesday, May 31, 2016 at 9:00 a.m. at the 20th Floor of Citystate Centre Building, 709 Shaw Boulevard, Pasig City, to take up the following matters:

- I. Calling of Meeting to Order
- II. Certification of Notice of Meeting
- III. Determination of Quorum
- IV. Reading and approval of the Minutes of the Stockholders' Meeting held on May 26, 2015
- V. Consideration of the President's Report on the Results of the Bank's Operations for the Year Ended 31 December 2015 (Annual Reports and Financial Statements of the Bank)
- VI. Confirmation/Ratification of the Acts of Officers, Management, the Executive Committee and the Board of Directors
- VII. Election of Members of the Board of Directors
- VIII. Appointment of External Auditor and Fixing of Remuneration
- IX. Such other business as may properly come before the meeting
- X. Adjournment

Only stockholders of record at the close of business on April 29, 2016 are entitled to vote at this meeting. Kindly present any proof of identification, such as driver's license, passport, company I.D. or SSS/GSIS I.D. Aside from personal identification document, representatives of corporate stockholders and other entities should also present a duly sworn Secretary's Certificate showing his or her authority to represent the corporation or entity.

Shareholders who will not be able to attend the meeting may designate their respective proxies by sending the proxy forms to the Office of the Assistant Corporate Secretary at the 2nd Floor, Citystate Centre Building, 709 Shaw Boulevard, Pasig City not later than 5:00 P.M. of May 23, 2016.

Thank you.


ATTY. SOCRATES M. AREVALO
Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:

Preliminary Information Statement

Definitive Information Statement

2. Name of Registrant as specified in its charter CITYSTATE SAVINGS BANK, INC.

3. Makati City, Metro Manila, Philippines
Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number A1997-9587

5. BIR Tax Identification Code 005-338-421-000

6. Citystate Centre Building, 709 Shaw Boulevard, Pasig City 1600
Address of principal office Postal Code

7. Registrant's telephone number, including area code (632) 470-3333.

8. May 31, 2016 at 9:00 AM; 20th Floor, Citystate Centre Building, 709 Shaw Boulevard, Pasig City.
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders May 10, 2016.

10. **In case of Proxy Solicitations:**

Name of Person Filing the Statement/Solicitor: _____

Address and Telephone No.: _____

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|----------------------|---|
| <u>Common Shares</u> | <u>72,764,998 shares</u> |

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes _____ No _____

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

Philippine Stock Exchange/Common Stock

INFORMATION STATEMENT

A. GENERAL INFORMATION

Date, time and place of meeting of security holders.

Date : May 31, 2016

Time : 9:00 A.M

Place : 20th Floor, Citystate Centre Building
709 Shaw Boulevard,
Pasig City

Principal Office : 2nd Floor, Citystate Centre Building
709 Shaw Boulevard,
Pasig City

This Information Statement is to be first sent to the security holders of Citystate Savings Bank, Inc. on May 10, 2016 in connection with the Annual Stockholders' Meeting.

WE ARE NOT ASKING YOU FOR A PROXY BUT YOU MAY SEND YOUR PROXY IF YOU CANNOT ATTEND PERSONALLY

Dissenters' Right of Appraisal

There are no matters or proposed actions included in the Agenda of the Meeting that may give rise to a possible exercise by stockholders of their appraisal rights.

With respect to that any matter to be acted upon at the Meeting which may give rise to the right of appraisal in order that a dissenting stockholder may exercise his appraisal right, such dissenting stockholder shall be reported within thirty (30) days after the date of the meeting at which such stockholder voted against the Corporate action, make a written demand on the Corporation for the value of his shares. The procedure to be followed in exercising the appraisal right shall be in accordance with Sections 81 to 86 of the Corporation Code.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which vote was taken for payment of the fair value of his shares: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days after the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, that upon payment by the corporation of the agreed awarded price, the stockholder shall forthwith transfer his shares to the corporation.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

The Board of the Directors of the Company is not aware of any party who has indicated an intention to oppose the motions set forth in the Agenda.

No person who has been a Director or Officer of neither the Corporation nor any of his/her associates has a substantial interest in any matter to be acted upon at the Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Holders Thereof

As of March 31, 2016, there are 72,764,998 shares of the Company common stock outstanding and entitled to vote at the Annual Meeting. Only holders of the Company's stock of record at the close of business on April 29, 2016, acting in person or by proxy on the day of the meeting are entitled to vote at the Annual Meeting to be held on May 31, 2016. Every stockholder shall be entitled to one vote for each share of common stock held as of the established record date.

Each stockholder may vote the number of shares of stock standing in his own name as of the record date of the meeting for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit: Provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected: Provided, however, that no delinquent stock shall be voted. Cumulative voting is allowed for election of members of the Board of Directors.

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 March 31, 2016 are as follows:

| Title of Class | Name, address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record | Citizenship | No. of Shares Held | Percent |
|----------------|--|---|-------------|--------------------|-----------|
| Common | Estate of the late Antonio L. Cabangon-Chua, 5 th Flr., Dominga Bldg. | D. Arnold A. Cabangon, Executor of the Estate | Filipino | 14,206,114 | 19.52328% |

| | | | | | |
|--|--|--|----------|-----------|-----------|
| | III, 2113 Chino Roces Ave., Makati City | | | | |
| | D. Alfred A. Cabangon, Chairman 2 nd 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., Affiliates 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 4 th Flr., Citystate Centre Bldg., 709 Shaw Blvd., Pasig City | J. Antonio A. Cabangon, Jr., Director | Filipino | 5,484,000 | 7.53659% |
| | Top Ventures Investment & Management, Affiliate Dominga Bldg. III, 2113 Chino Roces Ave., Makati City | D. Arnold A. Cabangon, Director/Treasurer | 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.

Security Ownership of Management as of March 31, 2016

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 | Wilfredo 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 | Jose Armando R. Melo | 1 | Filipino | 0.00% |
| | TOTAL | 28,466,421 | | 39.12% |

Officers

| Title of class | Name of Beneficial Owner | Amount and nature of beneficial ownership | Citizenship | Percent of Class |
|----------------|--------------------------|---|-------------|------------------|
| Common | | | | 0.00% |
| TOTAL | | | | 0.00% |

| Title of Class | Director | Officer | Total | Percent of Class |
|----------------|------------|---------|------------|------------------|
| Common | 28,466,421 | 0 | 28,466,421 | 39.12% |

Foreign Ownership

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Percent of Class |
|----------------|--|---|-------------|------------------|
| Common | Anthony Tan | 82,501 | Singaporean | 0.11% |
| Common | Lyndon M. Flaviano or Maria Kathryn G. Quijano | 1000 | American | 0.00% |
| Common | Leow Tze Wen | 1 | Malaysian | 0.00% |
| Common | Leow Siak Fah | 1 | Malaysian | 0.00% |
| | Total | 83,503 | | 0.11% |

Directors and Officers as a Group

Voting Trust of 5% or More

The company is not aware of any person holding 5% or more of common shares under a voting trust or similar agreement.

Change in Control

There is no change in control that has occurred since the beginning of the last financial year.

Directors and Executive Officers

Registrant is not aware of any legal proceedings of the nature required to be disclosed under Part 1,

paragraph (C) of Annex C of SRC Rule 12 with respect to the registrant's directors and executive officers. The information required by Part IV, paragraphs A and 1 (d) and (3) of Annex C of SRC Rule 12 relating to identity, affiliation and related transactions of directors is set forth in the report accompanying this Information Statement.

The directors of the company are elected at the Annual Stockholders' Meeting to hold office for one (1) year and until their respective successors have been elected or qualified.

The officers are likewise elected annually by the Board of Directors and serve for one (1) year and until their respective successors have been elected and qualified.

The following are the members of the Board of Directors and Executive Officers of the bank:

Board of Directors

| | |
|-------------------------------|-------------------------------|
| Amb. Antonio L. Cabangon-Chua | -Chairman* |
| D. Alfred A. Cabangon | -Chairman** |
| Alfonso G. Siy | -Vice Chairman |
| Benjamin V. Ramos | -Director/President |
| D. Arnold A. Cabangon | -Director/Corporate Treasurer |
| J. Antonio A. Cabangon, Jr. | -Director |
| J. Wilfredo A. Cabangon | -Director |
| Engr. Feorelio M. Bote | -Director |
| Dr. Ramon L. Sin | -Director |
| Pedro E. Paraiso | -Director |
| Atty. Emmanuel R. Sison | -Director |
| Lucito L. Sioson | -Independent Director |
| Justice Jose Armando R. Melo | -Independent Director |
| Wilfredo S. Madarang, Jr. | -Independent Director |

* Chairman of the Board up to March 11, 2016

**Elected as Chairman of the Board last March 29, 2016

D. Alfred A. Cabangon, 50, 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.

J. Wilfredo A. Cabangon, 55, Director. Mr. Cabangon is a Filipino Citizen. He is a graduate of De La Salle University – College of St. Benilde with a Bachelor of Science in Commerce, major in Business Management in 1997. He is the President of WMC Filipinas Pawnshop, Inc. and a director of ALC Realty Development Corporation, Fortune Life Insurance Company, Inc., Fortune General Insurance Corporation, Eternal Plans, Inc., Eternal Gardens Memorial Park Corporation, Gencars, Inc., and New Filipinas Pawnshop, Inc.

He was re-elected as director of Citystate Savings Bank, Inc. last February 2016. He has served as director of the bank from 1997 to 2013.

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, 78, 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.

Executive Officers

| | |
|-------------------------------|------------------------|
| Benjamin V. Ramos | - President |
| Emerson G. Igarta | - Vice President |
| Des Corazon D. Cruz | - Vice President |
| Lawrence K. Cementina | - Vice President |
| Joseph D. Gonzaga | - Asst. Vice President |
| Meliton A. Narciso | - Asst. Vice President |
| Gemma F. Montes | - Asst. Vice President |
| Maria Christine A. Villanueva | - Asst. Vice President |
| Jeffrey B. Domingo | - Asst. Vice President |
| Martin Jerry E. Machado | - Asst. Vice President |

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. Igarta, 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, 59, 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.

Compliance with SRC Rule 38

The registrant has constituted its Nomination Committee in line with the Code of Corporate Governance and it is composed of:

1. Ambassador Antonio L. Cabangon-Chua – Chairman*
2. D. Alfred A. Cabangon – Chairman**
3. Alfonso G. Siy – Member
4. Benjamin V. Ramos - Member
5. Gemma F. Montes – Non-voting Member

** Chairman of the Board up to March 11, 2016*

***Elected as Chairman of the Board last March 29, 2016*

During its last stockholders' meeting, the registrant elected two (2) independent directors in the persons of:

1. Lucito L. Sioson
2. Justice Jose Armando R. Melo

They possess the qualifications enumerated under SRC Rule 38.

In the forthcoming stockholders' meeting the nomination and election of directors and independent directors shall be conducted in line with the Corporation Code and with SRC Rule 38. The final list of the nominees is as follows:

As Directors

1. D. Alfred A. Cabangon, 49, Filipino
2. Alfonso G. Siy, 68, Filipino
3. D. Arnold A. Cabangon, 45, Filipino
4. Engr. Feorelio M. Bote, 73, Filipino
5. J. Antonio A. Cabangon, Jr., 47, Filipino
6. J. Wilfredo A. Cabangon, 55, Filipino
7. Ramon L. Sin, 82, Filipino
8. Atty. Emmanuel R. Sison, 66, Filipino
9. Pedro E. Paraiso, 82, Filipino
10. Benjamin V. Ramos, 52, Filipino
11. Susan M. Belen, 57, Filipino

As Independent Directors

1. Lucito L. Sioson, 77, Filipino
2. Justice Jose Armando R. Melo, 83, Filipino
3. Wilfredo S. Madarang, Jr., 67, Filipino

The above-mentioned candidates have been pre-screened and qualified in accordance with the bank's Manual of Corporate Governance.

Information about the Nominees for Independent Directors

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 was appointed director of Citystate Savings Bank, Inc. on December 2008.

He was nominated as independent director by Ms. Mercedita Gapaz, minority stockholder not in any manner related to the nominee.

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 was appointed director of Citystate Savings Bank, Inc. on February 28, 2012.

He was nominated as independent director by Alfonso G. Siy, member of the Nomination Committee not in any manner related to the nominee.

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 & Co. Foundation, Inc. and a director/president of Wilko21 Global Trade, Incorporated. Aside from Citystate Savings Bank, 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 appointed director of Citystate Savings Bank, Inc. on October 27, 2015.

He was nominated as independent director by Benjamin V. Ramos, member of the Nomination Committee not in any manner related to the nominee.

Significant Employees

Other than the officers and employees reported, there are no significant employees expected by the registrant to make significant contribution to the business.

Family Relationships

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

Involvement in Certain Legal Proceedings

No directors of the registrant are currently involved in legal proceedings during the past 5 years and up to this date in any of the following cases.

- a. Bankruptcy Petition
- b. Conviction by Final Judgment

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.

- c. Being Subject to any Order, Judgment or Decree
- d. Violation of Securities Law

No director has resigned nor declined to stand for re-election due to disagreement with the registrant.

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.

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

Compensation of Directors and Executive Officers

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).

| Year | Name and Principal Position | Salaries | Bonuses |
|---|---|-----------------|----------------|
| 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 | |
| | <i>All Board Directors and Officers as a Group</i> | 7,094,349.08 | |
| | | | |

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 executive 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.

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 | - | - |
| Total | <u>P1,288,000.00</u> | <u>P1,209,600.00</u> |

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.

The Bank's Audit Committee are as follows:

Chairman: Lucito L. Sioson (Independent Director)
Wilfredo S. Madarang, Jr. (Independent Director)
Engr. Feorelio M. Bote
Pedro E. Paraiso

C. ISSUANCE AND EXCHANGE OF SECURITIES

Authorization or Issuance of Securities Other than for Exchange

Not Applicable.

Financial and Other Information

Management's Discussion and Analysis or Plan/Result of Operation

Management's Discussion and Analysis or Plan of Operation of the Company is attached hereto as "Annex A".

Financial Statements

The Financial Statements and the Auditors' PTR, name of certifying partner and address are attached to this Information Statement as "Annex B".

D. OTHER MATTERS

Action with Respect to Reports

Action to be taken will constitute reading and approval of the minutes of the previous stockholders'

meeting, approval of the report for the year ended December 31, 2015 and ratification of all acts, proceedings and resolutions of the Board of Directors, the Executive Committee and the acts of the officers and management for the year 2015, details of which are hereto attached as Annex "C".

SUMMARY OF THE MINUTES OF THE 2015 STOCKHOLDERS' MEETING

The Chairman, Amb. Antonio L. Cabangon Chua, called the meeting to order at 9:30 A.M.

The Corporate Secretary, Atty. Socrates M. Arevalo, certified that the Notice of the Annual Stockholders' Meeting was sent to all stockholders in good standing fifteen (15) business days prior to the date of the meeting as required under paragraph (3) (C) of SRC Rule 20.

The Corporate Secretary, Atty. Socrates M. Arevalo, announced that the total stockholders physically present and/or represented by proxies of sufficiently met the required quorum for the conduct of the meeting. Mr. Andres Y. Narvasa, Jr., Chief Executive Officer (CEO), took notice of the fact that the copies of the Minutes of the Stockholders' Meeting held on May 27, 2014 have been previously distributed to the stockholders, and thus, he moved that the reading of the minutes be dispensed with and that the same be approved as circulated.

Atty. Emmanuel R. Sison, Director, seconded the motion.

There being no objection, the Minutes of the Annual Stockholders' Meeting was noted and approved.

Amendments of Charter, By-laws, and other Documents

The bank is complying with the procedures/guidelines for the nomination and election of independent directors as provided in SRC Rule 38.

The bank has adopted the pertinent provisions of SRC Rule 38, in its By-laws and has been approved by the Bangko Sentral ng Pilipinas (BSP).

Voting Procedures

Pursuant to the by-laws of the corporation, in all regular and special stockholders' meeting, the presence of shareholders who represent a majority of the outstanding capital stock entitled to vote shall constitute a quorum and all decisions made by the majority shall be final, unless the law requires a higher number of votes.

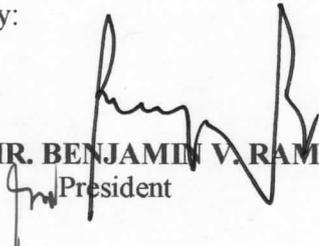
On the election of the member of the Board of Directors, the nominees receiving the highest number of votes shall be declared elected under Section 24 of the Corporation Code of the Philippines. Likewise, the nominee for external auditor with the highest number of votes shall be declared elected as such.

Counting of votes will be done via raising of hands. Affirmative votes are counted separately, the negative votes and lastly the abstention votes, if any. The Corporate Secretary, Atty. Socrates M. Arevalo is authorized to supervise/count the vote to be cast.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on the 04th day of May 2016.

By:


MR. BENJAMIN V. RAMOS
President

**REPORT ACCOMPANYING INFORMATION SHEET
REQUIRED UNDER SRC RULE 20**

(A) AUDITED FINANCIAL STATEMENTS

The audited financial statements of the registrant as of December 31, 2015 and the Statement of Management Responsibility for Financial Statements are attached hereto.

(B) MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

I. Financial Condition, Changes in Financial Condition and Results of Operations for each of the last three (3) fiscal years.

| Key Operating and Financial Indicators | 2013 | 2014 | 2015 |
|---|-------------|-------------|-------------|
| 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 | 4,193,301 | 4,871,268 |
| Deposit Liabilities | 2,679,598 | 3,396,810 | 4,143,577 |
| Total Liabilities | 2,749,602 | 3,501,192 | 4,261,791 |
| Capital Funds | 760,530 | 692,108 | 609,477 |
| ***** | - | - | - |
| Net Interest Income | 224,819 | 191,882 | 161,732 |
| Fee-Based and Other Income | 67,495 | 64,387 | 42,353 |
| Net Income | 329 | -70,063 | -86,654 |
| ***** | - | - | - |
| Earnings per Share** | 0.00 | -0.96 | -1.19 |
| Book Value per Share* | 10.45 | 9.51 | 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:

| Key Performance Indicators | CSBI December 2015 | INDUSTRY September 2015 |
|-----------------------------------|-------------------------------|------------------------------------|
| <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:

| Key Performance Indicator | BSP Prescribed Formula |
|----------------------------------|--|
| 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 2016, 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.

(C) BRIEF DESCRIPTION OF THE GENERAL NATURE AND SCOPE OF BUSINESS OF THE REGISTRANT

Citystate Savings Bank, Inc. was registered with the Securities and Exchange Commission on May 2, 1997. The Monetary Board of the Bangko Sentral ng Pilipinas on the other hand, granted the bank a license to operate as Thrift Bank on August 07, 1997. The bank's Authorized Capital is P1, 000,000,000.00 consisting of 100,000,000 common shares, with a par value of P 10.00 per share.

The bank began its operations on August 08, 1997 when it opened its first branch located in Dominga Building III, 2113 Chino Roces Avenue corner Dela Rosa Street, Makati City. At present, the bank's principal office is located at Citystate Centre Building, 709 Shaw Boulevard, Pasig City.

The bank itself provides a wide range of banking and other financial services such as but not limited to traditional and innovative deposit products and services, cash management, corporate and retail

banking and treasury services. The bank caters to the needs of corporate, middle market and retail clients.

On March 4, 2004, the Bangko Sentral ng Pilipinas approved the application of Citystate Savings Bank, Inc. to engage in quasi-banking functions.

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

(D) MARKET INFORMATION

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 |

As of March 31, 2016 CSBI has a total of fifty-five (55) stockholders owning 72,764,998 common shares.

Dividends Declared for the Last ten (10) years:

- In 1999, cash dividends totaling P594, 750.00 were declared and paid covering fiscal years 1997 to 1999.
- 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 6,615,000 shares and cash dividend amounting to P1,984,500.00 were declared, approved by BSP and paid by the bank.
- In 2007, cash dividend declared was 3/10 of 1% of the par value share or Php 0.03 per share.
- In 2008, cash dividend declared was 3/10 of 1% of the par value share or Php 0.03 per share.
- In 2009, cash dividend declared was 3/10 of 1% of the par value share or Php 0.03 per share.
- All cash dividends declarations are subject to Bangko Sentral ng Pilipinas approval.

As of March 31, 2016 the stocks are trading at P10.00 per share and the top twenty (20) shareholders are as follows:

| <u>Top 20 Stockholders</u> | | | | |
|-----------------------------------|--|---------------------------------------|------------------------------------|---------------------------|
| | <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 | 19.523280% | Filipino |
| 2. | D. Alfred A. Cabangon | 8,283,330 | 11.383674% | Filipino |
| 3. | Fortune Life Insurance Company, Inc. | 7,499,250 | 10.306123% | Filipino |
| 4. | Fortune General Insurance Corporation | 5,484,000 | 7.536591% | Filipino |
| 5. | Top Ventures Investments & Management | 4,902,594 | 6.737572% | Filipino |
| 6. | Feorelio Bote | 4,302,500 | 5.912870% | Filipino |
| 7. | Ronaldo Zamora | 3,521,000 | 4.838865% | Filipino |
| 8. | Angelita Jose | 3,100,074 | 4.260392% | Filipino |
| 9. | Gencars-Batangas, Inc. | 2,846,250 | 3.911565% | Filipino |
| 10. | Eternal Plans, Inc. | 2,641,700 | 3.630454% | Filipino |
| 11. | D. Edgard A. Cabangon | 2,143,350 | 2.945578% | Filipino |
| 12. | Alfonso G. Siy | 1,650,000 | 2.267574% | Filipino |
| 13. | D. Antoinette Cabangon | 1,650,000 | 2.267574% | Filipino |
| 14. | Eternal Plans Inc. Life Trust Fund | 1,118,643 | 1.537337% | Filipino |
| 15. | Eternal Plans Inc. Pension Trust Fund | 900,400 | 1.237408% | Filipino |
| 16. | Eternal Plans Inc. Education Trust Fund | 771,950 | 1.060881% | Filipino |
| 17. | Gencars-San Pablo, Inc. | 726,000 | 0.997732% | Filipino |
| 18. | Aliw Broadcasting Corp. | 717,300 | 0.985776% | Filipino |
| 19. | J. Wilfredo A. Cabangon In Trust For: Michael Wesley M. Cabangon | 714,450 | 0.981859% | Filipino |
| 20. | J. Wilfredo A. Cabangon In Trust For: William Mathew M. Cabangon | 714,450 | 0.981859% | Filipino |
| | | 67,893,355 | 93.304964% | |

(E) DISCUSSION ON COMPLIANCE WITH LEADING PRACTICE ON 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.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The registrant undertakes to provide without charge any person a copy of the Bank's Annual Report on SEC Form 17-A upon written request to the registrant addressed to:

**MR. MARTIN JERRY E. MACHADO
Assistant Vice President, Comptrollership/Accounting
Citystate Centre Building
709 Shaw Boulevard, Pasig City**

Citystate Savings Bank Inc.

VARIANCE ANALYSIS

For the Years ended December 31, 2015 and 2014

Total Income for the year 2015 decrease by P38.47 million as compared with 2014. The said decrease in income was attributable for the income on acquired assets amounting to P 25.56 million in 2014 .

Total Expenses for the year 2015 increase by P11.48 million as compared with 2014.

There is a decrease on Manpower Expense by 8.9 M due to decrease on salaries and wages and other benefits expenses.

There is also increase on Total Non-controllable Expense by 9.9 Million due to increase on depreciation expenses on bldg. and furniture and fixture and amortization on LRI.

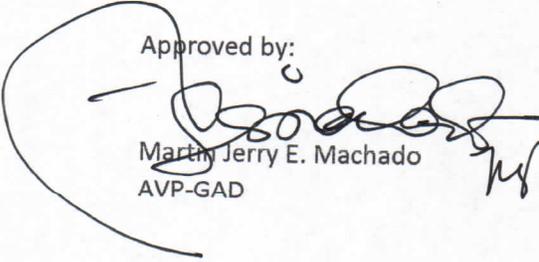
The Total Interest Expense increase by 10.75 Million due to increase in total deposit liabilities(6.9 million increase on Special Savings Deposit)The total deposit liabilities increased to P 4.143 million in 2015 compared from P 3.396 million in 2014

The Bank posted losses of P 80 Million(unaudited) in 2015 as compared with 2014 losses of P 71 million increase by P9.0 million due to the above reason .

Prepared by:

Marie Donna Sabino
PM

Approved by:


Martin Jerry E. Machado
AVP-GAD

Citystate Savings Bank, Inc
VARIANCE ANALYSIS
December 31, 2015 and 2014

The Bank's total resources as of December 31, 2015 increased from P4.959 billion to 4.194 billion resulting to a variance of 765,169 million as compared with 2014.

The bank posted an increase of 7.77% in Due from BSP due to increase in SDA placements.

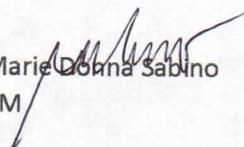
In 2015 the following investments booked to Held to Maturity were reclassified to Available for sale in the amount of 20M, on the other hand an increase on available for sale due to various investments on SM Holdings, Inc. (100M), San Miguel Corp. (56M) and Sta. Lucia Incorporated (70M).

There is an increase in Loans and Receivables of 20.83% due to fresh loan release from new borrower on Commercial Loans.

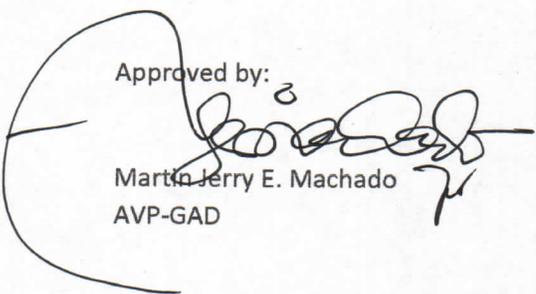
In 2015, the Bank's Total deposit liabilities increased by P746 million as compared to 2014.

The Increase was mainly due to increase in deposits.

Prepared by:


Marie Donna Sabino
PM

Approved by:


Martin Jerry E. Machado
AVP-GAD



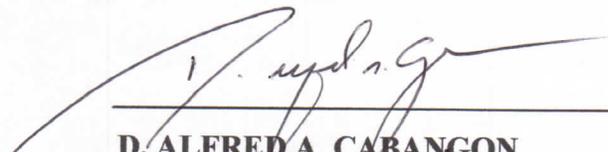
CITYSTATE
SAVINGS BANK
We Take Care of You.

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

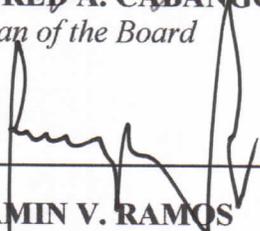
The Management of **Citystate Savings Bank, Inc.** is responsible for the preparation and fair presentation of the financial statements for the year ended **December 31, 2015 and 2014**, including the additional components attached therein, in accordance with the prescribed financial reporting framework 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.

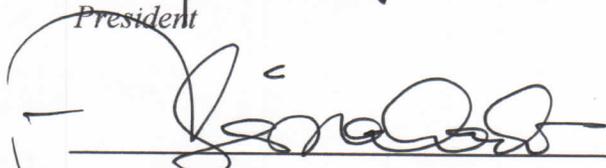
Punongbayan and Araullo, the independent auditors, appointed by the stockholders has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to stockholders or members, has expressed opinion on the fairness of presentation upon completion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



D. ALFRED A. CABANGON
Chairman of the Board



BENJAMIN V. RAMOS
President

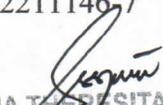


MARTIN JERRY E. MACHADO
Chief Financial Officer

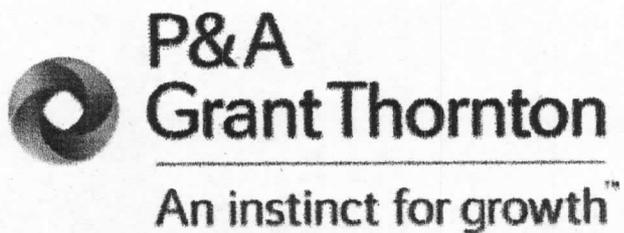
STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS (page 2)

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 THERESITA E. PATULA
Notary Public
Serial No. of Commission 1598
Commission expires on 12-31-16
Roll of Attorney's No. 53971
IBP No. 1024912 PTR No. 7209624

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



Financial Statements and
Independent Auditors' Report

Citystate Savings Bank, Inc.

December 31, 2015, 2014 and 2013



P&A
Grant Thornton

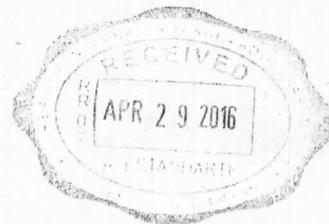
An instinct for growth™

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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F +63 2 886 5506
grantthornton.com.ph

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

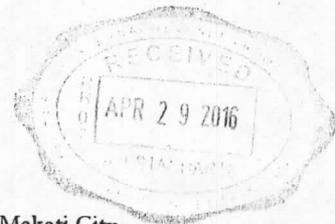
In our opinion, the financial statements present fairly, in all material respects, the financial position of Citystate Savings Bank, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance 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: **Ramilito L. Nafola**
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 |
|---|-------|-------------------------------|-------------------------------|
| <u>R E S O U R C E S</u> | | | |
| 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 |
| TOTAL RESOURCES | | <u>P 4,871,267,976</u> | <u>P 4,192,118,765</u> |
| <u>L I A B I L I T I E S A N D E Q U I T Y</u> | | | |
| DEPOSIT LIABILITIES | | | |
| 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 |
| OTHER LIABILITIES | 15 | 118,214,324 | 104,180,513 |
| Total Liabilities | | 4,261,791,392 | 3,500,990,271 |
| EQUITY | 16 | 609,476,584 | 691,128,494 |
| TOTAL LIABILITIES AND EQUITY | | <u>P 4,871,267,976</u> | <u>P 4,192,118,765</u> |



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 |
|---|------------|-------------------------|-------------------------|--------------------|
| INTEREST INCOME | | | | |
| 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> |
| INTEREST EXPENSE | | | | |
| 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> |
| NET INTEREST INCOME | | 161,731,995 | 191,881,991 | 224,819,161 |
| IMPAIRMENT LOSSES (RECOVERIES) - Net | 10, 13 | (13,786,273) | 27,072,490 | 228,149 |
| NET INTEREST INCOME AFTER IMPAIRMENT LOSSES (RECOVERIES) | | 175,518,268 | 164,809,501 | 224,591,012 |
| OTHER OPERATING INCOME (LOSS) | | | | |
| 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> |
| OTHER OPERATING EXPENSES | | | | |
| 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> |
| PROFIT (LOSS) BEFORE TAX | | (80,424,640) | (64,974,231) | 17,495,674 |
| TAX EXPENSE | 19 | 6,229,647 | 6,069,266 | 17,166,734 |
| NET PROFIT (LOSS) | | (P 86,654,287) | (P 71,043,497) | P 328,940 |
| Earnings (Losses) Per Share – Basic and Diluted | | | | |
| | 22 | (P 1.19) | (P 0.98) | P 0.00 |

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 |
|--|-------|-------------------------|-------------------------|------------------------|
| NET PROFIT (LOSS) | | (P 86,654,287) | (P 71,043,497) | P 328,940 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Item that will not be reclassified subsequently to profit or loss | | | | |
| 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) |
| Item that will be reclassified to profit or loss | | | | |
| 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) |
| Total Other Comprehensive Income (Loss) - net of tax | | 5,002,377 | 1,642,122 | (4,647,427) |
| TOTAL COMPREHENSIVE LOSS | | (P 81,651,910) | (P 69,401,375) | (P 4,318,487) |

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 |
|--|-------------|----------------------------|---------------------------|---------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| 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 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| 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) |
| Effect of Foreign Currency Exchange Rate Changes in Cash and Cash Equivalents | | 216,862 | (172,566) | 545,319 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 55,224,404 | 477,650,985 | 452,962,660 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | | |
| 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 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | | |
| 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 a 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 |
| | <u>P4,149,323,074</u> | <u>P -</u> | <u>P 133,086,810</u> | <u>P 4,282,409,884</u> |

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

| | Due from BSP and Other Banks | Loans and Receivables | AFS Securities |
|--|---|--------------------------------------|-----------------------------|
| <u>December 31, 2015</u> | | | |
| 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 |
| | <u>P 1,428,423,549</u> | <u>P 2,541,193,067</u> | <u>P 301,716,495</u> |
| <u>December 31, 2014</u> | | | |
| 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 |
| | <u>P 1,258,400,926</u> | <u>P 2,181,191,690</u> | <u>P 72,156,323</u> |

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 |
|------------------------------|---------------------------------|--|--|-------------------------------|-----------------------|
| December 31, 2015 | | | | | |
| 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> | 609,476,108 | 609,476,108 |
| 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> |
| Cumulative total gap | <u>(P 1,910,093,598)</u> | <u>(P1,023,289,858)</u> | <u>(P 617,980,492)</u> | <u>(P 668,690,819)</u> | <u>P -</u> |

| | Up to three months | More than three months to one year | More than one year to five years | More than five years | Total |
|------------------------------|--------------------------|--|--|----------------------------|----------------------|
| December 31, 2014 | | | | | |
| 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 |
|--------------------------|-------------------------------|--|--|----------------------------|------------------------------|
| December 31, 2015 | | | | | |
| 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>P 3,822,433,599</u> | <u>P 178,922,332</u> | <u>P 246,445,786</u> | <u>P -</u> | <u>P4,247,801,717</u> |
| December 31, 2014 | | | | | |
| 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>P 3,122,261,027</u> | <u>P 119,946,085</u> | <u>P 243,070,739</u> | <u>P 100,000</u> | <u>P3,485,377,851</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 | \$ 103,894 | P 4,889,248 | \$ 110,419 | P 4,940,119 |

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> |
|---------------------------------|--------------|----------------------------|---------------------|
| <u>December 31, 2015</u> | | | |
| 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 |
| | | (P 3,228,978) | P 2,260,284 |
| <u>December 31, 2014</u> | | | |
| 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 |
| | | (P 22,142,437) | P 15,499,705 |

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> |
| <i>Financial Assets</i> | | | | |
| 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 | | | | |
| | P 4,254,779,338 | P 4,254,779,338 | P 3,597,686,267 | P 3,597,686,267 |
| <i>Financial Liabilities</i> | | | | |
| 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 | | | | |
| | P 4,247,801,718 | P 4,247,801,718 | P 3,485,377,851 | P 3,485,377,851 |

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> |
|-------------------------------------|----------------------------|----------------------------|-------------------|-----------------------------|
| <u>December 31, 2015</u> | | | | |
| 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 |
| | <u>P303,310,381</u> | <u>P 15,570,000</u> | <u>P -</u> | <u>P 318,880,381</u> |
| <u>December 31, 2014</u> | | | | |
| AFS securities: | | | | |
| Government securities | | | | |
| | P 30,956,323 | P - | P - | P 30,956,323 |
| Proprietary shares | - | 15,070,000 | - | 15,070,000 |
| | <u>P 30,956,323</u> | <u>P 15,070,000</u> | <u>P -</u> | <u>P 46,026,323</u> |

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> |
|---------------------------------|------------------------|----------------|------------------------|------------------------|
| <u>December 31, 2015</u> | | | | |
| <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> |
| <u>December 31, 2014</u> | | | | |
| <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 | P 23,621,500 | P 26,668,407 |
| Buildings | <u>10,924,235</u> | <u>10,929,202</u> |
| | <u>P 34,545,735</u> | <u>P 37,597,609</u> |

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

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 | P 97,752,739 | P 114,806,433 |
| Savings deposits | <u>113,020,971</u> | <u>105,732,471</u> |
| | <u>P 210,773,710</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 | P 127,741,048 | P 127,076,780 |
| US dollar | <u>90,032,662</u> | <u>93,462,124</u> |
| | <u>P 210,773,710</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 | P 56,908,170 | P - |
| Unquoted | 50,000,000 | - |
| Government debt securities: | | |
| Quoted | 40,079,408 | 30,956,323 |
| Unquoted | 35,314,284 | 41,200,000 |
| Corporate bonds | | |
| Quoted | 206,322,803 | - |
| Unquoted | 20,000,000 | - |
| Quoted proprietary club shares | <u>15,570,000</u> | <u>15,070,000</u> |
| | <u>P 424,194,665</u> | <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 | P 87,226,323 | P 95,249,914 |
| Acquisitions | 349,261,514 | - |
| Maturity | (15,885,716) | (6,650,000) |
| Amortization | 130,609 | (257,614) |
| Fair value gains (losses) | <u>3,461,935</u> | <u>(1,115,977)</u> |
| Balance at end of year | <u>P 424,194,665</u> | <u>P 87,226,323</u> |

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

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

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

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

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

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

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

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

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

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 | <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> |
| 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 | <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> |
| 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 | <u>P 99,656,485</u> | <u>P 87,475,948</u> | <u>P 27,502,564</u> | <u>P 8,502,658</u> | <u>P 223,137,655</u> |

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 | <u>P 19,916,378</u> | <u>P 7,311,016</u> | <u>P 27,227,394</u> |
| 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 | <u>P 16,882,965</u> | <u>P 5,598,292</u> | <u>P 22,481,257</u> |
| 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 | <u>P 16,882,965</u> | <u>P 9,659,560</u> | <u>P 26,542,525</u> |

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 | <u>P 19,916,378</u> | <u>P 7,311,016</u> | <u>P 27,227,394</u> |
| 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 | <u>P 16,882,965</u> | <u>P 5,598,292</u> | <u>P 22,481,257</u> |

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 | P 118,408,793 | P 186,368,133 |
| Computer software – net | 13.2 | 50,054,393 | 47,824,516 |
| Sundry debits | 13.4 | 33,498,794 | 12,565,359 |
| Branch licenses | 13.3 | 32,500,000 | 32,500,000 |
| Stationery and supplies on hand | | 7,559,286 | 6,887,952 |
| Security deposits | 13.5, 21.4 | 7,369,426 | 6,917,657 |
| Prepaid expenses | 13.6 | 5,958,899 | 6,575,566 |
| Deferred tax assets – net | 19 | 4,577,816 | 5,285,594 |
| Deposit with Philippine Clearing House Corp. (PCHC) | | 2,500,000 | 2,500,000 |
| Advance rental | | 2,426,993 | 2,681,493 |
| Utility deposit | | 849,014 | 445,632 |
| Documentary stamps | | 658,254 | 566,210 |
| Deposit to Bancnet | | 500,000 | 500,000 |
| Other investments | | 153,333 | 153,333 |
| Miscellaneous | | <u>3,508,131</u> | <u>4,028,661</u> |
| | | <u>P 270,523,132</u> | <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 | P 118,915,891 | P 197,892,703 |
| Motor vehicles | <u>3,096,178</u> | <u>1,977,966</u> |
| | 122,012,069 | 199,870,669 |
| Allowance for impairment | <u>(3,603,276)</u> | <u>(13,502,536)</u> |
| | <u>P 118,408,793</u> | <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 | P 197,892,703 | P 146,625,005 |
| Foreclosures | 24,384,066 | 95,946,550 |
| Disposals | (103,360,878) | (44,678,852) |
| Balance at end of year | <u>P 118,915,891</u> | <u>P 197,892,703</u> |

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 | P 28,764,953 | P 19,778,044 | P 22,205,688 |
| Dollar | 38,436 | 34,212 | 27,459 |
| Time: | | | |
| Peso | 10,658,362 | 8,967,719 | 4,203,230 |
| Dollar | 407,970 | 521,844 | 417,598 |
| Demand | <u>614,477</u> | <u>426,675</u> | <u>353,904</u> |
| | <u>P 40,484,198</u> | <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 | P4,058,030,548 | P3,307,672,948 |
| US Dollars | <u>85,546,520</u> | <u>89,136,810</u> |
| | <u>P4,143,577,068</u> | <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 | P3,897,131,282 | P3,153,639,019 |
| Beyond one year but within five years | 246,445,786 | 243,070,739 |
| Beyond five years | <u>-</u> | <u>100,000</u> |
| | <u>P4,143,577,068</u> | <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 | P 46,856,979 | P 54,727,117 |
| Accrued expenses | 15.2 | 25,912,460 | 13,218,609 |
| Cashier's and manager's checks | | 24,493,245 | 11,658,890 |
| Post-employment benefit obligation | 18.2 | 12,506,323 | 12,418,975 |
| Sundry credits | 13 | 5,865,139 | 7,239,146 |
| Income tax payable | | 1,483,351 | 3,193,445 |
| Security deposits | 15.3 | 976,702 | 1,065,847 |
| Bills purchased clearing | | - | 518,000 |
| Miscellaneous | | 120,125 | 140,484 |
| | | <u>P 118,214,324</u> | <u>P 104,180,513</u> |

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 | <u>P 10,968,545</u> | <u>(P 1,678,933)</u> | <u>P 9,289,612</u> |
| 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 | P 566,741,868 | P 644,245,403 | P 706,522,924 |
| Tier 2 Capital | <u>13,296,000</u> | <u>8,595,234</u> | <u>11,461,003</u> |
| Total Qualifying Capital | P <u>580,037,868</u> | <u>P 652,840,637</u> | <u>P 717,983,927</u> |
| Total Risk Weighted Assets | P <u>2,588,769,728</u> | <u>P 2,236,246,452</u> | <u>P 2,271,577,145</u> |
| Capital Adequacy Ratio (CAR) | 22.41% | 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 | | P 6,757,480 | P 3,814,092 | P 2,644,428 |
| Rental income | 12, 24.2 | 5,142,059 | 4,083,569 | 3,395,134 |
| Legal and appraisal fees | | 2,974,513 | 201,887 | 993,038 |
| Income from trust department | 20 | 2,564,244 | 1,455,861 | 1,602,168 |
| Dividends | | 2,272,418 | - | - |
| Interbank ATM transactions | | 2,131,738 | 4,621,429 | 5,620,752 |
| Income from re-ordered and pre-encoded checks | | 970,984 | 818,776 | 979,577 |
| Gain from assets acquired/exchanged | | 384,976 | 2,975,246 | 33,537,450 |
| Foreign exchange gains – net | | 216,862 | - | 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 | | 840,752 | 1,313,784 | 1,377,816 |
| | | <u>P 24,256,026</u> | <u>P 44,917,540</u> | <u>P 51,385,204</u> |

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 |
| | | P 26,942,086 | P 26,695,371 | P 25,342,261 |

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 | 3,678,252 | 3,778,676 | 2,811,373 |
| | P 99,864,930 | P106,833,959 | P100,211,569 |

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

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

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

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

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 | P 2,035,067 | P | 7,580,895 |
| Quoted equity securities – | | | |
| Holding firms | 3,843,100 | | 1,270,520 |
| Debt securities – | | | |
| Corporate bonds | <u>3,922,261</u> | | <u>2,835,089</u> |
| | <u>P 9,800,428</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 | P 3,678,252 | P 3,778,676 | P 2,811,373 |
| Net interest expense | <u>606,046</u> | <u>653,384</u> | <u>505,970</u> |
| | <u>P 4,284,298</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 | (P 7,912,183) | (P 3,194,065) | (P 676,506) |
| Financial assumptions | 4,504,919 | (823,270) | 3,249,018 |
| Demographic assumptions | 199,946 | - | - |
| Return on plan assets (excluding amounts included in net interest expense) | <u>210,643</u> | <u>77,194</u> | <u>897,946</u> |
| | <u>(P 2,996,675)</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> |
| December 31, 2015 | | | |
| 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 | P 920,577 | P | 1,885,013 |
| More than one year to five years | 4,862,879 | | 6,100,243 |
| More than five years to ten years | 14,490,106 | | 15,408,757 |
| More than 10 years to 15 years | 18,467,235 | | 22,888,316 |
| More than 15 years to 20 years | 54,763,426 | | 50,304,502 |
| More than 20 years | <u>559,427,005</u> | | <u>289,758,424</u> |
| | <u>P 652,931,228</u> | 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 | P 1,546,630 | P 3,354,623 | P 3,524,003 |
| Final tax at 20% and 7.5% | 5,421,884 | 3,484,805 | 2,307,967 |
| MCIT – FCDU | <u>9,588</u> | <u>13,537</u> | <u>18,723</u> |
| | 6,978,102 | 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> |
| | <u>P 6,229,647</u> | <u>P 6,069,266</u> | <u>P 17,166,734</u> |
| <i>Reported in other comprehensive income:</i> | | | |
| Deferred tax expense (income) relating to: | | | |
| Remeasurement of defined benefit post-employment plan | P 899,003 | P 1,182,042 | (P 1,041,137) |
| Fair valuation of AFS securities | <u>557,230</u> | <u>-</u> | <u>(397,944)</u> |
| | <u>P 1,456,233</u> | <u>P 1,182,042</u> | <u>(P 1,439,081)</u> |

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% | (P 24,127,392) | (P 19,492,269) | P 5,248,702 |
| Adjustments for income subjected to lower income tax rates | (2,785,258) | (1,742,402) | (1,153,984) |
| Tax effects of: | | | |
| Unrecognized deferred tax assets | 27,002,243 | 21,943,387 | 7,828,451 |
| Non-deductible interests and other expenses | 3,591,145 | 2,497,685 | 3,309,178 |
| Reversal of previously unrecognized deferred tax assets | 3,479,921 | - | - |
| Non-taxable income | (681,725) | - | (18,066) |
| Tax exempt income | (249,287) | (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 | <u>P 6,229,647</u> | <u>P 6,069,266</u> | <u>P 17,166,734</u> |

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 | P 8,626,146 | P 8,626,146 |
| Defined benefit post-employment Obligation | 3,751,898 | 3,725,694 |
| Unamortized past-service cost | 239,590 | 334,070 |
| Unrealized foreign exchange loss | <u>-</u> | <u>51,770</u> |
| | <u>12,617,634</u> | <u>12,737,680</u> |
| Deferred tax liabilities: | | |
| Profit on assets sold under installment method | (5,502,938) | (5,805,351) |
| Accrued rent under PAS 17 | (1,175,650) | (842,735) |
| Fair value gains on AFS securities | (1,361,230) | (804,000) |
| | <u>(8,039,818)</u> | <u>(7,452,086)</u> |
| Net deferred tax assets | <u>P 4,577,816</u> | <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 | (P 925,207) | (P 674,151) | (P 520,070) | P 899,003 | P 1,182,042 | (P 1,041,137) |
| Accrued rent under PAS 17 | 332,915 | 125,547 | 150,468 | - | - | - |
| Profit on assets sold under installment method | (302,413) | (3,087,523) | 8,523,403 | - | - | - |
| Past-service cost amortization | 94,480 | 94,480 | 94,480 | - | - | - |
| Unrealized foreign exchange gains (loss) | 51,770 | (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> | <u>557,230</u> | <u>-</u> | <u>(397,944)</u> |
| Net deferred tax expense (income) | <u>(P 748,455)</u> | <u>(P 783,699)</u> | <u>P 11,316,041</u> | <u>P 1,456,233</u> | <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:

| | 2015 | | 2014 | |
|--------------------------|----------------------|---------------------|---------------------|---------------------|
| | Tax Base | Tax Effect | Tax Base | Tax Effect |
| NOLCO | P 160,442,441 | P 48,132,732 | P 50,204,388 | P 15,061,316 |
| Allowance for impairment | 12,212,513 | 3,663,754 | 25,998,786 | 7,799,636 |
| MCIT | <u>8,425,256</u> | <u>8,425,256</u> | <u>10,358,547</u> | <u>10,358,547</u> |
| | <u>P 181,080,210</u> | <u>P 60,221,742</u> | <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:

| Year Incurred | Amount | Expired | Balance | Year of Expiry |
|---------------|---------------------|----------------------|--------------------|----------------|
| 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 |
| | <u>P 11,905,177</u> | <u>(P 3,479,921)</u> | <u>P 8,425,256</u> | |

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.

| Year Incurred | Original Amount | Expired | Remaining Balance | Year of Expiry |
|---------------|----------------------|------------|----------------------|----------------|
| 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 |
| | <u>P 160,442,441</u> | <u>P -</u> | <u>P 160,442,441</u> | |

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 |
| Stockholders: | | | | | |
| Deposit liabilities | 21.2 | P 271,440 | P 15,725 | P 294,446 | P 298,701 |
| Interest expense | 21.2 | 80 | - | 1,079 | - |
| Related Parties Under Common Ownership: | | | | | |
| 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 |
| Officers and Employees: | | | | | |
| 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 |
| Key Management Personnel – | | | | | |
| 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 | P378,579,645 | P 351,743,333 | P 339,050,420 |
| % to total loan portfolio | 14.90% | 16.13% | 18.06% |
| % of unsecured DOSRI loans to total DOSRI loans | 0.00% | 0.00% | 0.00% |
| % of past due DOSRI loans to total DOSRI loans | 0.00% | 2.39% | 0.00% |
| % of non-performing DOSRI loans to total DOSRI loans | 0.00% | 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 | P 12,449,508 | P 12,914,174 | P 11,695,364 |
| Post-employment benefits | <u>212,067</u> | <u>240,203</u> | <u>217,580</u> |
| | <u>P 12,711,575</u> | <u>P 13,154,377</u> | <u>P 11,912,944</u> |

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) | (P 86,654,287) | (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 | <u>(P 1.19)</u> | <u>(P 0.98)</u> | <u>P 0.00</u> |

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 | -13.33% | -9.79% | 0.04% |
| Return on average resources | -1.91% | -1.84% | 0.01% |
| Net interest margin | 4.33% | 5.95% | 8.41% |
| Net profit margin | -42.85% | -32.06% | 0.13% |
| Interest rate coverage | -83.27% | -98.13% | 226.29% |
| Debt-to-equity | 699.27% | 506.56% | 361.54% |
| Resources-to-equity | 799.27% | 606.56% | 461.54% |
| CAR | 22.41% | 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 | P 15,152,140 | P 8,299,016 |
| After one year but not more than five years | 34,227,684 | 16,403,378 |
| More than five years | <u>39,066,718</u> | <u>15,134,782</u> |
| | <u>P 88,446,542</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 | P 5,163,139 | P 3,505,876 |
| After one year but not more than five years | 16,050,654 | 12,151,182 |
| More than five years | <u>3,384,029</u> | <u>5,315,754</u> |
| | <u>P 24,597,822</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 | P 556,010,364 | P 223,324,356 |
| Deficiency claims receivable | | 1,455,890 | 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 | | P 24,384,066 | P 97,452,138 | P245,045,761 |
| Unrealized fair value gains (losses) on AFS securities | 9 | 3,461,935 | (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 | P 210,773,710 | P 220,538,904 |
| Due from other banks not considered as cash and cash equivalents | | (18,095,776) | (55,544,317) |
| | | <u>P 192,677,934</u> | <u>P 164,994,587</u> |

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> |
| | P | <u>15,199,289</u> |

(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> |
| | | <u>P 17,546,215</u> |

(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> |
| | <u>P 135,514,591</u> |

(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> |
| | <u>P 39,240,352</u> |

(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> |
| | P | <u>187,569,557</u> |

CITYSTATE SAVINGS BANK, INC.
List of Supplementary Information
December 31, 2015

| <u>Schedule</u> | <u>Content</u> | <u>Page No.</u> |
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| Schedules Required under Annex 68-E of the Securities Regulation Code (SRC) Rule 68 | | |
| 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 | * |
| H | Capital Stock | 4 |

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 |
|--|---|------------------------------------|---|-----------------------------|
| A. GOVERNMENT SECURITIES: | | | | |
| 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. FINANCIAL INSTITUTIONS | | | | |
| 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 |
| C. PRIVATE CORPORATION | | | | |
| 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. LOCAL GOVERNMENT - | | | | |
| INFANTA WATER BOND-DBP * | 35,314,284 | 35,314,284 | 35,314,284 | 1,982,908 |
| C. CLUB SHARES | | | | |
| WACK-WACK Country Club and Golf Course | - | 15,500,000 | 15,500,000 | - |
| Forest Hills Country Club | - | 70,000 | 70,000 | - |
| Total | 419,242,290 | P 424,716,219 | P 424,194,665 | P 10,199,531 |

* 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> |
| TOTAL | <u>P 351,987,315</u> | <u>P 67,667,779</u> | <u>P 36,249,421</u> | <u>P -</u> | <u>P 383,405,672</u> | <u>P -</u> | <u>P 383,405,672</u> |

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 ASSESMENT (LAGGUI) | 150,000 | | 149,999 | | | 1 |
| I.T. VULNERABILITY ASSESMENT (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 |
| Total | P 44,303,645 | P 46,689,999 | P 8,969,044 | - | - | P 82,024,600 |

| 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 |
| Common Stock | 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**

| | |
|---|---------------------------------|
| Unappropriated Deficit at Beginning of Year | (P 43,844,665) |
| Prior Years' Outstanding Reconciling Items, net of tax | |
| Deferred tax income | (<u>12,591,430</u>) |
| Unappropriated Deficit Not Available for Dividend Declaration at Beginning of Year | (56,436,095) |
| Net Loss Realized during the Year | |
| Net loss per audited financial statements | (86,654,287) |
| Non-actual/unrealized income | |
| Deferred tax income | (925,207) |
| Other Transactions during the Year | |
| Appropriation for trust business | (<u>256,424</u>) |
| Deficit | (<u>P 144,272,013</u>) |

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: | | | |
| $\frac{\text{Net profit}}{\text{Average total equity accounts}}$ | -13.33% | -9.79% | 0.04% |
| Return on average resources: | | | |
| $\frac{\text{Net profit}}{\text{Average total resources}}$ | -1.91% | -1.84% | 0.01% |
| Net interest margin: | | | |
| $\frac{\text{Net interest income}}{\text{Average interest earning resources}}$ | 4.33% | 5.95% | 8.41% |
| Net Profit margin: | | | |
| $\frac{\text{Net profit}}{\text{Revenues}}$ | -42.85% | -32.06% | 0.13% |
| Interest rate coverage: | | | |
| $\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$ | -83.27% | -98.13% | 226.29% |
| Debt to equity: | | | |
| $\frac{\text{Total liabilities}}{\text{Total equity}}$ | 699.25% | 506.56% | 361.54% |
| Resources to equity: | | | |
| $\frac{\text{Total resources}}{\text{Total equity}}$ | 799.25% | 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) | | | ✓ |
| Philippine Accounting Standards (PAS) | | | | |
| 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+B3358) | | | ✓ |
| | 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) | | | ✓ |
| Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC) | | | | |
| 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 |
|-----------------------|------------|-------|--|-----------|-------------------|
| AFFILIATES | | | | | |
| 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 |
| TOTAL | | | | | 572,269.41 |

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

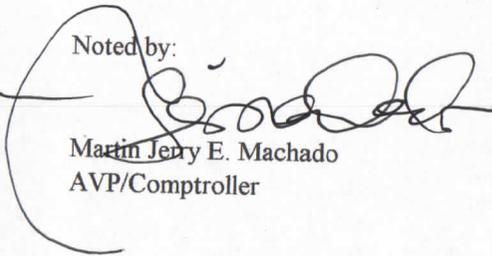
SCHEDULE II

| 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:

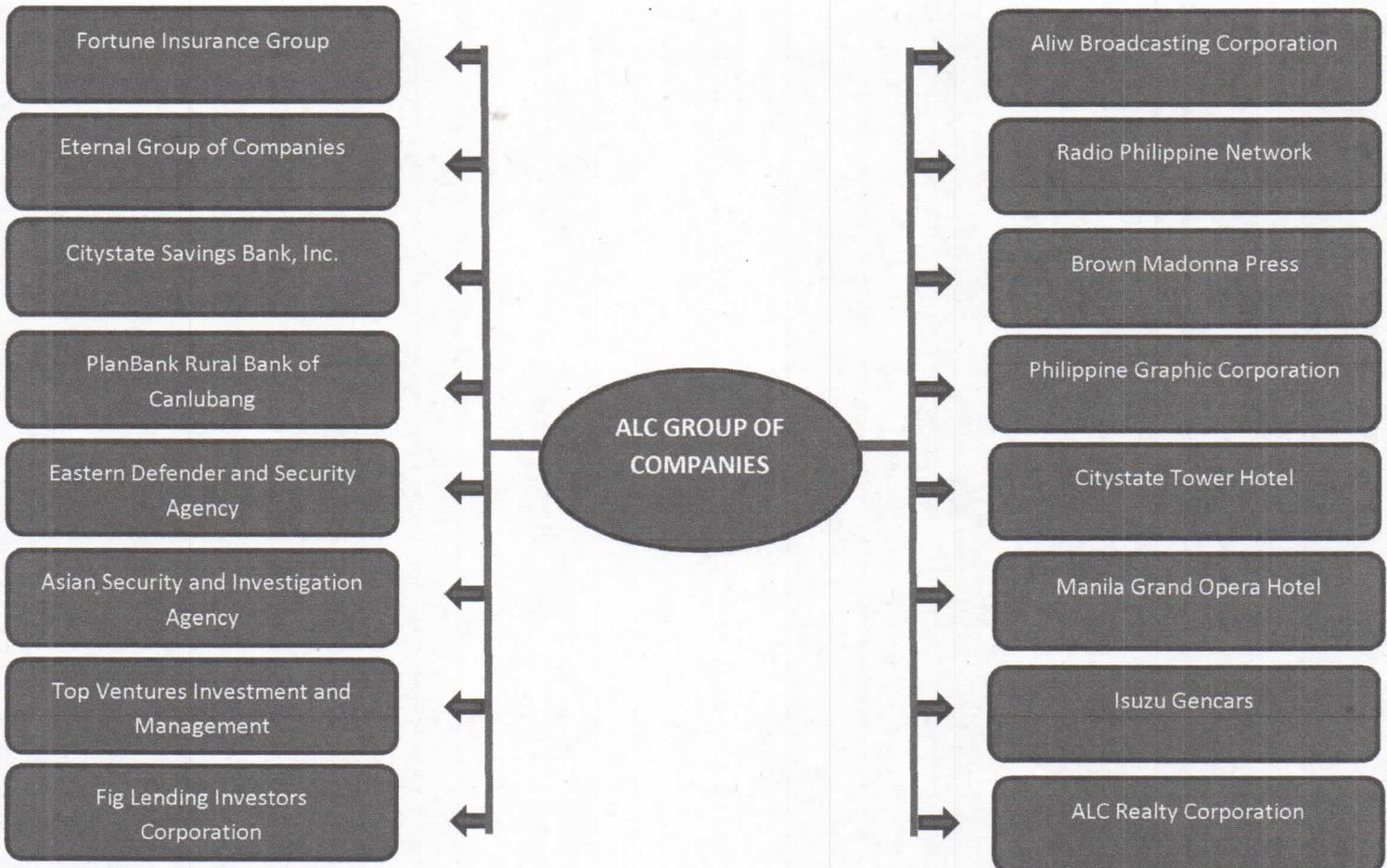

 Rey Mark Napiza
 Accounting Assistant

Noted by:

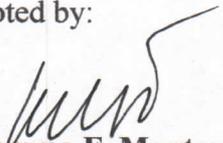

 Martin Jerry E. Machado
 AVP/Comptroller

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

**RESOLUTIONS APPROVED BY THE BOARD OF DIRECTORS
FOR THE CONFIRMATION OF THE STOCKHOLDERS**

2015 BOARD RESOLUTIONS

| DATE | BR NO. | PARTICULARS |
|--------------------------|-----------|--|
| January 27, 2015 | 2015-0001 | Replacement of Authorized Signatories for Scripless Securities |
| | -0002 | Eternal Plans Life Plan's Transfer of Trust Fund from BDO to CSBI-TD |
| | -0003 | Eternal Plans Pension Plan's Planholder's Loan against Trust Fund |
| | -0004 | Proposed Accreditation of Robinsons Land Corporation's Fixed Rate Bonds as Additional Investment Outlet |
| | -0005 | Proposed Accreditation of San Miguel Purefoods Perpetual Preferred Shares as Additional Investment Outlet |
| | -0006 | Amendment of Signatories for the Opening of Current Account at BDO Capitol Pasig Branch for CIS Bayad Center |
| | -0007 | Delegation of Authority to the Chief Executive Officer or President to Decide, Direct and Declare the Closing of Branches, and/or Extension of Offices During Local Holidays |
| | -0008 | Back to Back Loan of Fortune Medicare |
| | -0009 | Relocation of CSBI Cubao Branch |
| February 24, 2015 | 2015-0010 | Election of Mr. Benjamin V. Ramos as a Regular Director |
| | -0011 | Conversion of One (1) Vehicle from ROPA to FFE |
| | -0012 | One (1) Vehicle FFE Available for Sale |
| | -0013 | Proposed Investment Outlet – SM Investment Corporation SMIC FXBD2019 |
| | -0014 | Proposed Investment Outlet – San Miguel Purefoods (SMPFC) |
| | -0015 | Update on Signatories of Cebu Branch |
| | -0016 | Term Loan – Grand Monaco Estate Developers |
| | -0017 | Term Loan – Alexander Tantoco |
| | -0018 | Assumption of Loan – Aliw Management Ventures, Inc. |
| | -0019 | Board's Approval of Annual Stockholders' Meeting |
| | -0020 | Offer to Purchase of Motor Vehicle of Col. Artemio B. Custodio |
| | -0021 | Authorization of Two (2) Employees to receive Pag-Ibig and SSS Checks |
| | -0022 | Enhancement on Jewelry Loans Process and Requirements |
| | -0023 | Renewal of Contract to Sell (CTS) – International Silverwings Investment, Inc. |

| | |
|-----------------------|--|
| -0024 | Dealer Accreditation of Autocirculo Corporation – KIA Pasig |
| -0025 | Amendment of the Bank’s Approving Authority and Limits on Loan Policy |
| -0026 | Proposed Counterparty Accreditation – RCBC |
| March 31, 2015 | |
| 2015-0027 | Notation of the retirement of Atty. Rey D. Delfin and Election of Director Benjamin V. Ramos as President |
| -0028 | Composition of Trust Committee |
| -0029 | Report of Examination (RoE) of BSP |
| -0030 | Accreditation of Investment Outlet – LGU Bonds |
| -0031 | Opening of Dollar Time Deposit and Savings Account at China Bank Greenbelt 1 |
| -0032 | Update of Signatories for CSBI Philippine Payment System |
| -0033 | Update of Signatories for Union Bank – Shaw Pasig Branch (Peso Current Account) |
| -0034 | Update of Signatories for Union Bank – Shaw Pasig Branch (Dollar Time Deposit Account) |
| -0035 | Update of Signatories for CSBI Demand Deposit Account |
| -0036 | Update of Signatories of CSBI with UCPB Pioneer |
| -0037 | Update of Signatories of CSBI with UCPB Cambridge |
| -0038 | Update of Signatories for Philippine Dealing & Exchange Corp. |
| -0039 | Update of Signatories of CSBI Dagupan with UCPB (Dollar Savings Account) |
| -0040 | Update of Signatories of CSBI Meycauayan with UCPB (Dollar Savings Account) |
| -0041 | Update of Signatories of CSBI Baliuag with UCPB (Dollar Savings Account) |
| -0042 | Update of Signatories of CSBI Batangas with UCPB (Dollar Savings Account) |
| -0043 | Update of Signatories for Investment in San Miguel Purefoods Company, Inc. (SMPFC) |
| -0044 | Update of Signatories for Investment in SM Investment Corporation (SMIC) |
| -0045 | Bank’s Authorized Signatories for Bank Reports per BSP Circular No. 870 |
| -0046 | Renewal of Agreement with Securities Transfer Services, Inc. (STSI) as the Bank’s Transfer Agent and Designating Mr. Andres Y. Narvasa, Jr. As its Authorized Representative |
| -0047 | Amendment on the Approval of Grand Monaco Estate Developers, Inc. |

- 0048 Amendment of the Bank's Loan Committee Composition
- 0049 Confirmation of Full Settlement of Sps. David Jhons and Victoria Luna
- 0050 Sale of CSBI Property in favor of Mr. Efren Alano
- 0051 Jewelry Term Loan Policy
- 0052 Vendor Management Policy
- 0053 Update on Counterparties and Trading Lines
- 0054 Amendment on the Bank's Signatories with Philippine Business Bank
- 0055 Loan Committee Approved Accounts
- 0056 Purchase of Vehicle from Philippine Business Mirror

April 28, 2015

- 2015-0057 Proposed Branch Operations Manual: Cash Management
- 0058 Term Loan – Narra Wellness Resorts, Inc. DBA The Farm at San Benito
- 0059 Bills Purchase Line: ALC Realty Development Corporation
- 0060 ATM Triple DES and EMV Implementation
- 0061 Revised Memorandum of Agreement for Payroll of Counterparties
- 0062 Home Guaranty Corporation
- 0063 Small Business Corporation
- 0064 Philippine Export and Import Credit Agency
- 0065 Bank's Market Vendor Loan Facility
- 0066 Confirmation of Accounts Approved by Loan Committee for March 25 to April 21, 2015
- 0067 Proposed Table of Organization
- 0068 Promotion of Mr. Lawrence K. Cementina to Vice President
- 0069 Issuance of Financial Statements
- 0070 Confirmation of Approved Trust Committee Matters

May 26, 2015

- 2015-0071 Election of Corporate Officers
- 0072 Term Loan Restructuring – Zoobic Safari
- 0073 Parameters for Eligible Borrowers for Auto Loan Financing with GenCars
- 0074 Agri-Agra Loan Facility
- 0075 Domestic Standby Letter of Credit
- 0076 Domestic Letter of Credit

- 0077 Trust Receipt Facility
- 0078 Accreditation for End-buyer Financing: First Wood Residential Development Corp.
- 0079 Updating of List of Authorized Signatories/Representatives for Legal Matters
- 0080 GAP Analysis Report Per Circular No. 855
- 0081 Approval of Sale of Bank Property to ALC Realty Development
- 0082 Retirement of Col. Custodio as Security Officer and Appointment of Col. Matias Montefalcon as Security Officer
- 0083 Retirement of Eduardo O. Olavario as Chief Financial Officer
- 0084 Bank's Receipt of Financial Audit Report and Action on the Findings and/or Recommendation of Punongbayan & Araullo
- 0085 Policy on the Optimization of the day-to-day liquidity of the Citystate Savings Bank – Trust Department for purposes of additional investment and re-investment of existing trust funds or fruits of existing investment

June 30, 2015

- 2015-0086 Confirmation of ROPA Classification and Transfer of Motor Vehicles to Branches
- 0087 Confirmation of Approved Trust Committee Matters
- 0088 Confirmation of Amendments in the Business Continuity Plan
- 0089 Confirmation of Approved Accounts by Loan Committee from June 1-19, 2015
- 0090 Resignation of Mr. Andres Y. Narvasa, Jr. as Director of CSBI
- 0091 Proposed Budget Revision for the Years 2015-2017
- 0092 Proposed Team Building Activity for CSBI 18th Anniversary
- 0093 Updating of Signatories for Bayad Center
- 0094 Updating of Signatories for Dollar Savings Account with UCPB Plaridel
- 0095 Authorized Signatories for Bank Reports per BSP Circular No. 870 as amended
- 0096 Investment in Aboitiz

July 28, 2015

- 2015-0097 Bank's Network Update
- 0098 Confirmation of Sale of Acquired Property
- 0099 Term Loan – Golden Egg Store / SLC Agri –Farm
- 0100 Increase in Contract to Sell (CTS) Receivable Financing Line with Recourse – Landowrks Asia
- 0101 Increase in Contract to Sell (CTS) Receivable Financing Line with

- Recourse – International Silverwings Investment
- 0102 All Purpose Loan Facility secured by fully paid insurance policy
- 0103 Amendment of Approving Authority Limits on Loan Policy
- 0104 Amendment of Bank’s Signatories with PBB
- 0105 Confirmation of Approved Accounts by Loan Committee from June 26 to July 23, 2015
- 0106 Software Maintenance Agreement for Infoserve ATM Switch
- 0107 Proposed Investment Outlet – SMC
- 0108 Proposed Certificate of Participation
- 0109 Amendment to the Anti-Money Laundering (AML) Manual
- 0110 Compliance Testing Program

August 25, 2015

- 2015-0111 Finacle End-Users Guide
- 0112 Official Set of Signatories for Investment/Divestment in San Miguel Corporation (SMC) Series “2” Preferred Shares
- 0113 Compliance Department Charter and Covered/Suspicious Transaction Process Flow
- 0114 Credit Line: HMR Philippines
- 0115 Credit Line: Cellprime Distribution Corporation
- 0116 Term Loan/Credit Line: RAL Imperial Realty Management Corporation
- 0117 CTS: Endura Land Development Corp.
- 0118 Confirmation of approved accounts by Loan Committee from August 4 to August 18, 2015
- 0119 Credit Risk Management Action Plan
- 0120 Term Loan: Sps. Jesus & Katrina Martinez
- 0121 Opening of Peso Savings Account at PNB Puerto Princesa for CSBI Puerto Princesa Branch
- 0122 Opening of Dollar Savings Account at PNB Puerto Princesa for CSBI Puerto Princesa Branch
- 0123 Deposit/Pick-Up/Cash Delivery Service at PNB for CSBI Puerto Princesa Branch
- 0124 Appointment of External Auditor
- 0125 Acceptance of resignation of Chief Compliance Officer, OIC to sign on behalf of the Compliance Department
- 0126 Creation of Promotion Committee (PROMCOM)

September 29, 2015

- 2015-0127 Term Loan: RJ Lhinet Development Corporation

- 0128 Omnibus Line: Gencars, Inc.
- 0129 Credit Line: Specialist Group Hospital & Trauma Center
- 0130 Delearship Accreditation of Autocirculo Corporation (Mahindra Brand)
- 0131 Confirmation of approved accounts by Loan Committee from August 20 to September 22, 2015
- 0132 Bank Signatories for BSP Reports and PHILPASS
- 0133 Availment of Services for Deposit Pick-up/Cash Delivery Arrangement with UCPB Binan, Laguna for CSBI Sta. Rosa City, Laguna Branch
- 0134 Opening of PESO Savings Account – with Passbook with UCPB Binan, Laguna for CSBI Sta. Rosa City, Laguna Branch
- 0135 Opening of DOLLAR Savings Account with UCPB Binan, Laguna for CSBI Sta. Rosa City, Laguna Branch
- 0136 Revocation of B.R. No. 2015-0121 and Opening of PESO Current Account – with Passbook with China Banking Corporation Puerto Princesa, Palawan for CSBI Palawan Branch
- 0137 Revocation of B.R. No. 2015-0122 and Opening of DOLLAR Savings Account with China Banking Corporation Puerto Princesa, Palawan for CSBI Palawan Branch
- 0138 Revocation of B.R. No. 2015-0123 and Availment of Services for Deposit Pick-up/Cash Delivery Arrangement with China Banking Corporation Puerto Princesa, Palawan for CSBI Palawan Branch
- 0139 Confirmation of matters approved by the Trust Committee

October 27, 2015

- 2015-0140 Signatories for Deposit/Pick-Up/Cash Delivery Services with UCPB for CSBI Dagupan Branch
- 0141 Updating of Signatories – Account with UCPB Dagupan for CSBI Dagupan Branch
- 0142 Updating of Signatories – Deposit/Pick-up/Cash Delivery Service with UCPB for CSBI Batangas Branch
- 0143 Updating of Signatories – Account with UCPB Batangas for CSBI Batangas Branch
- 0144 Opening of Dollar Savings Account at UCPB Urdaneta for CSBI Urdaneta Branch
- 0145 Upadting of Signatories – Deposit/Pick-Up/Cash Delivery Service with UCPB for CSBI Urdaneta Branch
- 0146 Updating of Signatories – Account with UCPB Urdaneta for CSBI Urdaneta Branch
- 0147 Information Technology Steering Committee (ITSC) Charter Revision and Reorganization of Members
- 0148 Full Revision of IT Operations Policy Manual

- 0149 Budget Approval for Check Truncation System
- 0150 Change of Title of CCTV/DVR Surveillance System Policy to Surveillance and Security System Policy, with Amendments
- 0151 Appointment of Mr. Wilfredo S. Madarang, Jr. as Independent Director and Confirmation of Election as member of Risk Oversight Committee (ROC) and Corporate Governance Committee (CGC)
- 0152 Capital Build-up Plan
- 0153 Anti-Money Laundering Committee Charter
- 0154 Finacle Manual / Revision of Operation Policy and Procedure Manual
- 0155 Addendum on Quality Assurance Manual
- 0156 Opening of Dollar Savings Account at UCPB Batangas for CSBI Batangas Branch
- 0157 Proposed Investment of Php100 Million in SM Prime Holdings Inc. Fixed Rate Bonds Due 2021 and 2025
- 0158 Revocation of B.R. No. 2015-0138 and Appointing a New Deposit Pick-Up/Cash Delivery Services Arrangement with UCPB Savings Bank Puerto Princesa, Palawan for CSBI Palawan Branch
- 0159 Revocation of B.R. No. 2015-0136 and Opening of New Peso Current Account with Passbook with UCPB Savings Bank Puerto Princesa, Palawan for CSBI Palawan Branch
- 0160 Confirmation of Approved Accounts by Loan Committee from September 22, 2015 to October 13, 2015
- 0161 Appointment of Mr. Alfonso G. Siy as Trust Committee Member
- 0162 Appointment of Mr. Benjamin V. Ramos as Corporate Governance Committee Member
- 0163 Operations Manual – Purchase/Buying of Foreign Currency Notes

November 24, 2015

- 2015-0164 CTS: Citihomes Builders & Development, Inc.
- 0165 Restructuring Term Loan: Sps. Ruel & Avelina Flores
- 0166 Omnibus Line: RH Digos Designworks & Construction
- 0167 Confirmation of Approved Accounts by Loan Committee October 23, 2015 to November 16, 2015
- 0168 Financial Consumer Protection Manual
- 0169 ISO Management Framework, IT Risk Management Framework and Baseline Security Standards Policy
- 0170 Promotions Committee (PROMCOM) Policies and Procedures
- 0171 Bank's Table of Organization
- 0172 Inter-Network Anti-Fraud Policy and Guidelines in Handling Electronic Banking

December 22, 2015

| | |
|-----------|--|
| 2015-0173 | Loan Restructure: Dario Borje |
| -0174 | Loan Restructure: Maria Margarita Eloriaga Sevilla |
| -0175 | Loan Restructure: Sps. Harry & Melinda Crisostomo |
| -0176 | Confirmation of Approved Accounts by Loan Committee from November 12 to December 11, 2015 |
| -0177 | Signatories on BSP Report and PhilPass |
| -0178 | Investment of Php70,000,000.00 in Sta. Lucia Land Inc. Peso-denominated Fixed Rate Bond due 2018 and 2021 |
| -0179 | Investment of Php100,000,000.00 in SM Prime Holdings, Inc. Peso-denominated Fixed Rate Bond due 2021 and 2025 |
| -0180 | Confirmation/Approval of Cancellation of Contract to Sell and Approval of Assignment of Payments |
| -0181 | First Batch of Employee Promotions |
| -0182 | Reorganization of Committee Membership / Appointment of Independent Director Wilfredo S. Madarang in Risk Oversight Committee and Corporate Governance Committee |
| -0183 | Capital Build-up Plan |
| -0184 | Bank's replies to BSP Advance Findings |
| -0185 | Complaints Summary October – December 2015 |
| -0186 | Reclassification of foreclosed asset to bank property |
| -0187 | Revision on the IT Steering Committee Charter |
| -0188 | Omnibus Line: RH Dlgos Designworks & Construction |

****Nothing follows****

CITYSTATE SAVINGS BANK, INC.
 STATEMENTS OF FINANCIAL POSITION
 MARCH 31, 2016 AND DECEMBER 31, 2015
 (Amounts in Philippine Pesos)

| | <u>2016</u> <u>Unaudited</u> | <u>2015</u> <u>Audited</u> |
|---|---------------------------------|-------------------------------|
| <u>R E S O U R C E S</u> | | |
| CASH AND OTHER CASH ITEMS | 77,820,671 | 99,154,882 |
| DUE FROM BANGKO SENTRAL NG PILIPINAS | 672,061,084 | 1,118,494,957 |
| DUE FROM OTHER BANKS | 160,210,055 | 210,773,710 |
| AVAILABLE-FOR-SALE SECURITIES | 482,412,666 | 424,194,665 |
| LOANS AND RECEIVABLES - Net | 2,181,120,743 | 2,496,398,635 |
| BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net | 222,406,649 | 224,500,601 |
| INVESTMENT PROPERTIES - Net | 29,558,617 | 27,227,394 |
| OTHER RESOURCES - Net | 429,665,801 | 270,523,132 |
| TOTAL RESOURCES | 4,255,256,286 | 4,871,267,976 |
| <u>LIABILITIES AND EQUITY</u> | | |
| DEPOSIT LIABILITIES | | |
| Demand | 403,301,551 | 531,012,854 |
| Savings | 2,840,765,492 | 3,253,885,651 |
| Time | 173,456,127 | 358,678,563 |
| Total Deposit Liabilities | 3,417,523,170 | 4,143,577,068 |
| OTHER LIABILITIES | 235,885,363 | 118,214,324 |
| Total Liabilities | 3,653,408,533 | 4,261,791,392 |
| EQUITY | 601,847,753 | 609,476,584 |
| TOTAL LIABILITIES AND EQUITY | 4,255,256,286 | 4,871,267,976 |

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Quarter Ended March 31,2016
(With Comparative Figures for the Quarter Ended March 31,2015)
(Amounts in Philippine Pesos)

| | <u>2016</u> | <u>2015</u> |
|--|--------------|--------------|
| INTEREST INCOME | | |
| Loans and receivables | 47,325,461 | 41,802,726 |
| Due from BSP and other banks | 4,650,184 | 4,199,512 |
| Available-for-sale securities | 5,729,227 | 1,373,425 |
| Held to maturity | - | 277,785 |
| | 57,704,872 | 47,653,448 |
| INTEREST EXPENSE | | |
| Deposit liabilities | 10,827,351 | 8,367,522 |
| Others | - | - |
| | 10,827,351 | 8,367,522 |
| NET INTEREST INCOME | 46,877,521 | 39,285,926 |
| IMPAIRMENT LOSSES - Net | (1,730,800) | - |
| NET INTEREST INCOME AFTER IMPAIRMENT LOSSES | 48,608,321 | 39,285,926 |
| OTHER OPERATING INCOME | | |
| Service charges and fees | 5,124,603 | 5,231,033 |
| Miscellaneous | 6,737,012 | 2,629,527 |
| | 11,861,615 | 7,860,560 |
| OTHER OPERATING EXPENSES | | |
| Employee benefits | 24,537,860 | 25,155,848 |
| Security, janitorial and messengerial services | 7,824,348 | 9,443,701 |
| Depreciation and amortization | 8,720,055 | 7,810,316 |
| Occupancy | 7,503,460 | 7,022,741 |
| Communication, light and water | 5,916,057 | 6,295,645 |
| Taxes and licenses | 1,993,648 | 2,755,325 |
| Insurance | 4,594,698 | 4,155,550 |
| Fuel and oil | 2,361,816 | 2,762,508 |
| Repairs and maintenance | 756,698 | 770,136 |
| Litigation and asset acquired expenses | 376,601 | 1,042,585 |
| Miscellaneous | 5,787,919 | 6,811,491 |
| | 70,373,159 | 74,025,846 |
| PROFIT (LOSS) BEFORE TAX | (9,903,223) | (26,879,361) |
| TAX EXPENSE | 1,640,540 | 1,049,203 |
| NET PROFIT (LOSS) | (11,543,763) | (27,928,563) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | |
| Fair Value Gain (Loss) | 6,592,251 | 8,173,624 |
| | 6,592,251 | 8,173,624 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | (4,951,512) | (19,754,939) |
| Earnings Per Share | (0.16) | (0.38) |

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED MARCH 31, 2016
(With Comparative Figures for the Period Ended December 31, 2015)
(Amounts in Philippine Pesos)

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|---------------------------|
| CAPITAL STOCK | | |
| Balance at the beginning of the period | 727,649,980 | 727,649,980 |
| Issuance of additional shares | <u>-</u> | <u>-</u> |
| Balance at the end of the period | <u>727,649,980</u> | <u>727,649,980</u> |
| ADDITIONAL PAID-IN CAPITAL | <u>2,222,444</u> | <u>2,222,444</u> |
| REVALUATION RESERVES | | |
| Balance at the beginning of the period | 6,854,377 | 4,287,235 |
| Total Comprehensive Income (Loss) | (262,126) | 5,002,377 |
| Punongbayan Audit Adjustments | <u>-</u> | <u>-</u> |
| Balance at the end of the period | <u>6,592,251</u> | <u>9,289,612</u> |
| SURPLUS RESERVES | | |
| Reserve for trust operations during the period | <u>813,500</u> | <u>813,500</u> |
| Transfers to Reserves | | 256,424 |
| | | 1,069,924 |
| RETAINED EARNINGS | | |
| Balance at the beginning of the period | (123,886,668) | (43,844,665) |
| Transfers to Reserves | | (256,424) |
| Total Comprehensive Income(loss) | | (86,654,287) |
| Net income (Loss) | (11,543,754) | - |
| Dividends | - | - |
| P&A audit adjustments | <u>-</u> | <u>-</u> |
| Balance at the end of the period | <u>(135,430,422)</u> | <u>(130,755,376)</u> |
| TOTAL CAPITAL FUNDS | <u><u>601,847,753</u></u> | <u><u>609,476,584</u></u> |

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Quarter Ended March 31,2016
(With Comparative Figures for the Period Ended March 31, 2015)
(Amounts in Philippine Pesos)

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit (Loss) before tax | (9,903,225) | (26,879,359) |
| Gain/Loss from sales ASS | 6,592,251 | 8,173,624 |
| Depreciation and amortization | 8,720,055 | 7,810,316 |
| Impairment losses(recoveries)-net | <u>-</u> | <u>-</u> |
| Operating income before working capital changes | 5,409,081 | (10,895,419) |
| Decrease (Increase) in loans and receivables | 202,277,325 | 107,133,558 |
| Decrease (Increase) in investment properties (ROPA) | 6,075,835 | 6,633,906 |
| (Increase) in other resources | (5,810,330) | 53,845,343 |
| (Decrease) Increase in deposit liabilities | 195,126,627 | 498,564,103 |
| Increase in other liabilities | <u>70,655,370</u> | <u>(50,864,816)</u> |
| Cash from operations | 473,733,908 | 604,416,675 |
| Cash paid for income taxes | <u>(1,640,530)</u> | <u>(1,049,203)</u> |
| Net Cash From Operating Activities | <u>472,093,378</u> | <u>603,367,472</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of bank premises, furniture, fixtures and equipment | (997,848) | (34,530,588) |
| (Increase) Decrease in available-for-sale securities | <u>365,669,280</u> | <u>40,003,064</u> |
| Net Cash (Used) in Investing Activities | <u>364,671,432</u> | <u>5,472,476</u> |
| | | - |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | <u>836,764,811</u> | <u>608,839,948</u> |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | |
| Cash and other cash items | 99,154,882 | 152,246,760 |
| Due from Bangko Sentral ng Pilipinas | 1,118,494,957 | 1,037,862,022 |
| Due from other banks | <u>210,773,710</u> | <u>220,538,904</u> |
| | <u>1,428,423,549</u> | <u>1,410,647,686</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | | |
| Cash and other cash items | 77,820,671 | 99,154,882 |
| Due from Bangko Sentral ng Pilipinas | 672,061,084 | 1,118,494,958 |
| Due from other banks | <u>160,210,055</u> | <u>210,773,710</u> |
| | <u>910,091,810</u> | <u>1,428,423,550</u> |

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND DECEMBER 31, 2015
(Amounts in Philippine Pesos)

1 CORPORATE INFORMATION

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 as such on August 8, 1997.

The Bank's common shares were listed in the Philippine Stock Exchange ("PSE") on November 14, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi - banking functions. The Bank has 28 branches and 31 on-site and 8 off-site automated teller machines strategically located in key cities and municipalities within Metro Manila and provincial areas.

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 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.

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 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 (PFRSs).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource and liability, and income and expense.

(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".

(c) Functional and Presentation Currency

The 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.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2014 that are Relevant to the Bank

In 2014, the Bank adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after January 1, 2014:

| | | |
|---|---|---|
| PAS 32 (Amendment) | : | Financial Instruments - Presentation ---- Offsetting Financial Assets and Financial Liabilities |
| PAS 36 (Amendment) | : | Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets |
| PAS 39 (Amendment) | : | Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting |
| Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21 | : | Levies |

Discussed below are the relevant information about these new, revised and amended standards.

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. The Bank's existing settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Bank's financial statements for any periods presented.
- (ii) PAS 36 (Amendment), *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Bank's non-financial assets were not measured based on fair value less cost of disposal.
- (iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*.

As the Bank, neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Bank's financial statements.

- (iv) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for a levy imposed by the government is the activity described in the relevant legislation that triggers the payment of the levy. This amendment had no significant impact on the Bank's financial statements since the Bank has been recognizing liabilities for levies at the time the legislation or the government requires or imposes the payment of such.

(b) *Effective in 2014 that are not Relevant to the Bank*

Among the amendments to PFRS which are effective for the annual period beginning or after January 1, 2014, the Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*, in relation to the exception from consolidation for and investment entity of its investments in subsidiaries are not relevant to the Bank.

(c) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014 which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements, and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

- (i) PAS 19 (Amendment), *Employee Benefits-Defined Benefit Plans -- Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions 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.
- (ii) 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.
- (iii) 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 on 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. On the other hand, 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 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.
- (iv) 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,
- (v) Annual Improvements to PFRS

Annual Improvements to PFRS (2010-2012 Cycle)

- 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 the entity providing key management services to a reporting entity is deemed to be a related party of the latter.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of that discounting is immaterial.

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 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.
- 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, or a business combination in reference to PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

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

(a) 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.

Loans and Receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables and Security Deposits in the statement of financial position. Cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and non-restricted balances with BSP and amounts due from other banks. For statement of cash flow purposes, cash and cash equivalents include cash and other cash items, due from BSP and due from other banks.

(b) AFS Securities

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 government securities and proprietary club shares.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. 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; 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:

| | |
|--|----------|
| Bank premises | 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.

2.5 Investment Properties

Investment properties include land and building acquired by the Bank from defaulting borrowers which 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. 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.

2.6 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 entity and the asset has a cost or value that can be measured reliably.

2.7 Intangible Assets

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

2.8 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. All interest-related charges incurred on financial liability are recognized as Interest Expense in the statement of comprehensive income.

Deposit liabilities and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

2.9 Offsetting Financial Instruments

Financial assets and liabilities are set off and the resulting net amount is reported in the statement of financial position when there is a 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.

2.10 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.

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.

2.11 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; or the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Interest income and expense* - are recognized in the 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 estimated future cash payments or receipts through 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.

- (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 the profit or loss when the title to the assets is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured.
- (d) *Trading gains* - are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security disposed of.
- (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.

Cost and expenses are recognized in the 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.

2.12 Leases

The Bank accounts for its leases as follows:

- (a) *Bank as Lessee*

Leases which transfer to the Bank substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property at the inception of the lease or, if lower, at the present value of minimum lease payments.

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 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.

2.13 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.

2.14 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.

2.15 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, defined contribution plans and other benefits as described below.

(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.

(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 the payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets maybe 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 and involves the payment of termination benefits.

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in 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.

2.16 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 the profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

2.17 Related Party Relationships and Transactions

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 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; and (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.

2.18 Equity

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

Additional paid-in capital includes any premium 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 the following:

- (a) Net unrealized fair value gain arising from the market-to-market valuation of AFS securities.
- (b) Remeasurements of defined benefit post-employment plan based on the accumulated balances of actuarial gains or losses and 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 account 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 represent all current and prior period results of operations as reported in the statement of comprehensive income, reduced by the amount of dividends declared.

2.19 Earnings Per Share

Basic earnings per share is computed by dividing net profit attributable to 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.

2.20 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 prepared in accordance with PFRS requires management to make judgments and estimates that affect 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

(a) Impairment of Available-for-sale 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 flow.

(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 generated cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations.

(c) Distinguishing Operating and Finance Leases

The Bank has entered into various lease agreements as lessee and certain lease agreements as lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operation lease or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

(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 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.

(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.

3.2 Key Sources of Estimation Uncertainty

(a) Estimating Impairment Losses on Loans and Receivables

Adequate amount of allowance 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 collectibility of the accounts, including, but not limited to, the length of the Bank's relationship with the borrowers' current credit status, average age of accounts, value of the collaterals, collection experience and historical loss experience.

(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.

(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.

(d) Fair Value Measurement of Investment Properties

The Bank's investment properties are composed of parcels of land and buildings acquired from defaulting borrowers not held for sale in the next twelve months.

The estimated fair values of these assets, are determined by in-house and independent appraisers.

(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.

(f) Estimating Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, 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.

(g) Valuation of Post-employment Defined Benefit

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, expected rate of return on plan assets, expected rate of salary increases.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

4.1 Credit Risk

Credit risk is the risk that the counterpart in a transaction may default and 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.

Exposure to credit risk is managed through regular analysis of the ability of the 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.

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 short-term funding requirements are met.

4.3 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, SPURRA 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.

5 CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

(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.

(b) *Loans and receivables and other resources*

Loans and receivables and 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.

(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.

5.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities 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 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:

- a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- b) 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
- c) 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.

6.2 Financial Instruments Measurement at Fair Value

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

a) 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 closing 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 of the reporting period. On the other hand, governemnt 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 (i.e., Philippine Dealing and Exchange Corporation).

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 the reporting period.

6.3 Fair Value Disclosures for Investment Properties

The fair value fo 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 were 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, were 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 contractof's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees.

7 DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP)

As of December 31, 2015 and December 31, 2014, the Bank has deposits considered as mandatory reserves with the BSP totaling P1,118.50 billion and P1,037.86 billion, respectively.

Mandatory reserves represent the balance of the deposit account maintained with BSP to meet reserve requirements on deposit liabilities for thrift banks.

8 DUE FROM OTHER BANKS

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

| | <u>2016</u> | <u>2015</u> |
|---------|--------------------|-------------|
| Demand | 5,415,444 | |
| Time | 86,728,709 | 114,806,433 |
| Savings | 68,045,101 | 105,732,471 |
| | 160,189,254 | 220,538,904 |

Savings accounts represent clearing and other depository accounts with other banks.

Time includes special savings deposits and have average maturities of one month.

9 AVAILABLE-FOR-SALE SECURITIES

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

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|--------------------|-------------|
| Equity securities: | | |
| Unquoted | | 0 |
| Quoted | | 0 |
| Government debt securities: | | |
| Unquoted | 83,842,855 | 41,200,000 |
| Quoted | 398,569,811 | 40,960,713 |
| Corporate Bonds | | |
| Unquoted | | - |
| Quoted | | - |
| Quoted proprietary club shares | 15,570,000 | 15,070,000 |
| | 497,982,666 | 97,230,713 |

Quoted government debt securities include debt securities issued by the Republic of the Philippines. These securities will mature in various dates within 2015 to 2021.

Unquoted debt securities amounting to P140.13 million and P41.2 million as of December 31, 2015 and December 31, 2014, respectively, is issued by the local government of Infanta.

This investment is carried at cost as the fair value of such security cannot be determined.

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 golf shares have been designated by the Bank as AFS securities as these shares are being held indefinitely.

10 LOANS AND RECEIVABLES

The details of this account follow:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Receivables from customers | 2,068,958,221 | 2,068,955,379 |
| Sales contract receivables | 112,162,522 | 114,750,969 |
| Long-term negotiable certificate of deposit | - | 25,580,506 |
| Other receivables | 8,911,345 | 37,586,823 |
| | <u>2,190,032,088</u> | <u>2,246,873,677</u> |
| Unearned interests, discounts and other charges | (5,153,376) | (9,125,985) |
| Allowance for impairment | (29,712,618) | (41,250,070) |
| | <u>2,155,166,094</u> | <u>2,196,497,622</u> |

11 BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

| | Land | Bank Premises | Office Furniture, Fixtures and Equipment | Leasehold Improve- ments | Total |
|--|---------------------|--------------------------|---|---|--------------------|
| March 31, 2016 | | | | | |
| Cost | 71,375,102 | 146,991,449 | 146,778,162 | 32,314,166 | 397,458,879 |
| Accumulated depreciation and amortization | - | (51,416,754) | (107,638,178) | (13,903,346) | (172,958,278) |
| Net Carrying Amount | <u>71,375,102</u> | <u>95,574,695</u> | <u>39,139,984</u> | <u>18,410,820</u> | <u>224,500,601</u> |
| December 31, 2015 | | | | | |
| Cost | P 71,375,102 | 146,991,449 | 143,269,126 | 23,704,700 | 385,340,378 |
| Accumulated depreciation and amortization | - | (49,277,570) | (104,538,095) | (13,807,764) | (167,623,429) |
| Net Carrying Amount | <u>P 71,375,102</u> | <u>P 97,713,880</u> | <u>P 38,731,031</u> | <u>P 9,896,936</u> | <u>217,716,949</u> |

Depreciation and amortization expenses amounting to P6.9million for the period ended March 31, 2016 and P26.44million for the period ended December 31, 2015 are shown as part of the Depreciation and Amortization account in the statements of Profit or Loss.

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

12 INVESTMENT PROPERTIES

| | Land | Building | Total |
|--------------------------|----------------------------|----------------------------|-----------------------------|
| March 31, 2016 | | | |
| Cost | 71,375,102 | 146,991,449 | 218,366,551 |
| Accumulated depreciation | - | <u>(53,555,939)</u> | (53,555,939) |
| Allowance for impairment | <u>(550,090)</u> | | (550,090) |
| Net Carrying Amount | <u>70,825,012</u> | <u>93,435,510</u> | <u>164,260,523</u> |
| December 31, 2015 | | | |
| Cost | 71,375,102 | 146,991,449 P | 218,366,551 |
| Accumulated depreciation | | (51,416,754) | (51,416,754) |
| Allowance for impairment | <u>(550,089)</u> | | (550,089) |
| Net Carrying Amount | <u>P 70,825,013</u> | <u>P 95,574,695</u> | <u>P 166,399,708</u> |

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P2.4 million and P2.3 million for the period ended December 31, 2015 and 2014, respectively, and is recorded as part of Rental Income under Miscellaneous Income account in the statements of comprehensive income.

13 OTHER RESOURCES

The details of this account follow:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------------|---------------------------|
| Non-financial assets - net | 218,215,307 | 198,786,218 |
| Computer software - net | 48,443,081 | 47,360,309 |
| Branch licenses | 32,500,000 | 32,500,000 |
| Sundry debits | 32,751,070 | 79,731,384 |
| Prepaid expenses | 15,144,549 | 6,620,615 |
| Security deposits | 7,157,557 | 6,928,667 |
| Stationery and supplies on hand | 7,860,307 | 7,546,875 |
| Deferred tax assets - net | 3,667,050 | 3,667,050 |
| Deposit with Philippine Clearing House Corp (PCHC) | 2,500,000 | 2,500,000 |
| Advance rental | 2,949,472 | 2,278,293 |
| Documentary stamps | 661,782 | - |
| Building under construction | - | 13,358,683 |
| Bancnet | 500,000 | 500,000 |
| Utility deposit | 1,089,373 | 821,014 |
| Other investments | 17,723,333 | 153,333 |
| Advances to suppliers | 5,000 | 5,000 |
| Miscellaneous | <u>38,497,920</u> | <u>9,572,814</u> |
| | <u>429,665,801</u> | <u>412,330,254</u> |

Non-financial assets include foreclosed vehicles and jewelry items foreclosed from borrowers.

Depreciation expense recognized for the foreclosed vehicles amounting to 582,957.05 in 2015 and 1,097,378.68 in 2014 are included as part of Depreciation and Amortization account in the Statements of Comprehensive Income.

Branch licenses pertain to the cost of licenses the Bank acquired 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.

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.

Security deposits include refundable and non-refundable deposits for the lease of the various Bank branches from several parties. Refundable security deposits are remeasured at amortized cost using the effective interest rates ranging from 5.76% to 7.42% 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.

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.

14 DEPOSIT LIABILITIES

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

| | <u>2016</u> | <u>2015</u> |
|-----------------|-------------------|----------------------|
| Philippine Peso | 87,403,339 | 3,561,957,066 |
| US Dollars | 1,897,186 | 77,896,852 |
| | <u>89,300,525</u> | <u>3,639,853,919</u> |

15 OTHER LIABILITIES

The balance of this account consists of the following:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|--------------------|--------------------|
| Accounts payable | 123,855,479 | 131,508,253 |
| Accrued expenses | 36,209,776 | 30,788,763 |
| Cashier's and manager's checks | 52,593,309 | 24,493,245 |
| Post-employment benefit obligation | | - |
| Sundry credits | 2,679,458 | 5,865,139 |
| Security deposits | 976,702 | 976,702 |
| Bills purchased clearing | 13,288,374 | - |
| Income tax Payable | | - |
| Miscellaneous | 2,693,618 | 111,505 |
| | <u>232,296,715</u> | <u>193,743,607</u> |

Accounts payable is mainly composed of collections from SSS contributions from various clients of the Bank which are remitted to SSS in the succeeding month following the month of collection, advanced collections from borrowers and payable to third party vendors for purchases of goods and services.

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

Security deposits pertain to the deposits received from third parties related to the lease of Bank-owned investment properties, refundable at the end of the lease terms. The security deposits are remeasured at amortized cost using the effective interest method.

16 EQUITY

16.1 Capital Stock

As of December 31, 2015 and December 31, 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 consist of 72,764,998 shares amounting to P727.6 million.

16.2 Capital Management and Regulatory Capital

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 interest;
- (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 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 amount of surplus funds available for dividend declaration is determined also on the basis of regulatory networth 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.

16.3 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 OTHER MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

17.1 Miscellaneous Income

| | 2016 | 2015 |
|-----------------------------|------------------|-------------|
| Income on assets acquired | 746,017 | 384,976 |
| Penalty on Loans | 1,969,514 | 2,727,393 |
| Income or loss - Trust dept | 864,611 | 1,859,663 |
| Others | 3,149,738 | 7,509,410 |
| | 6,729,880 | 12,481,441 |

Gain 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

| | 2016 | 2015 |
|--------------------------------------|------------------|-------------|
| Stationery and supplies used | 855,624 | 2,300,868 |
| Representation and entertainment | 342,528 | 1,054,597 |
| Management & other professional fees | 351,938 | 1,757,683 |
| Advertising and publicity | 152,060 | 552,628 |
| Travelling expenses | 273,012 | 1,216,851 |
| Banking fees | 244,591 | 856,189 |
| Commission fees | - | 114,199 |
| Membership fees and dues | - | 8,000 |
| Freight fees | 199,353 | 20,833 |
| Information technology | 1,859 | 118,225 |
| Periodicals and magazines | 4,300 | 14,777 |
| Others | 2,581,163 | 8,350,076 |
| | 5,006,428 | 16,364,926 |

18 TAXES

18.1 *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.

18.2 *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.

19 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.

19.1 *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 of the Bank, whichever is lower.

19.2 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.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P1.2 million investments in the shares of stock of the Bank as of December 31, 2014 while debt securities is composed of investments in corporate bonds.

19.3 Lease Transactions

The Bank, as a lessee, has lease agreements with related parties under common ownership. In relation to these lease agreements, the Bank made certain security deposits totaling P6.9 million and P7.0 million as of December 31, 2015 and December 31, 2014, respectively, and are presented as part of Other Resources account in the statements of financial position. Rent expense arising from these leases are presented as part of Occupancy in the statements of comprehensive income.

20 COMMITMENTS AND CONTINGENCIES

20.1 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. 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%.

The Bank's total rent expense (shown as Occupancy account in the statements of comprehensive income) amounted to P21.85 million for the period ended December 31, 2015 and P20.67 million for the period ended December 31, 2014

20.2 Operating Lease Commitments - Bank as Lessor

The Bank is a lessor under non-cancellable operating lease agreements for the lease of its investment properties. The leases have terms of five to ten years, with renewal options, and include annual escalation rate of 5% to 10%.

The total rent income on investment properties amounted to P 2.43 million and P2.31 million for the period ended December 31, 2015 and December 31, 2014, respectively and is presented as Rental income under Miscellaneous Income account in the Statements of Comprehensive Income.

20.3 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, that may arise from these commitments and contingent liabilities 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, 2015 and December 31, 2014.

| | <u>2016</u> | <u>2015</u> |
|---------------------------|--------------------|--------------------|
| Trust and Agency Accounts | 806,813,048 | 543,230,084 |
| Others | 27,325,053 | 1,515,077 |

21 OTHER THAN WHAT WERE REPORTED OR DISCLOSED IN THE ACCOMPANYING FINANCIAL STATEMENTS, THERE ARE NO -

- a) Material transactions that had an effect on the assets, liabilities, equity, net income, cash flows which are of unusual nature or size brought about by seasonal events or cyclical events.
- b) Changes in estimates of amounts reported in prior interim periods of prior financial years that have material effect in the current interim period.
- c) There are no known material commitments for capital expenditures as of reporting date.
- d) Issuances, repurchases, and repayments of equity securities
- e) Segment revenue and segment result for business segments or geographical segments.
- f) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
- g) Material contingencies and any other events or transactions that are material to an understanding of the current interim period.
- h) Events that will trigger direct or contingent financial obligations that is material to the company including any default or acceleration of an obligation.
- i) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the Quarter Ended March 31, 2016

Interest Income

Total gross interest income for the first quarter of the year increased to P57.705 million versus P47.653 million recorded the previous year. This was mainly due to the 13.21% increase in Loans and Receivables from 41.803 million in the first quarter of 2015 as compared to P47.325 million in the first quarter of 2016 as a result of increase in loan availments during the period. Available-for-sale securities increased to P5.729 million from P1.373 million due to increase in debt securities. The aforementioned were comparative figures for the quarter ending March 31, 2016 and March 31, 2015.

Interest Expense

For the first quarter of the year, Interest Expense increased by 29.40% in the amount of P10.827 million versus P8.368 million recorded last year due to maturities paid off from Time Deposit. The Interest Expense is 18.76% of the Interest Income of P57.705 million.

Other Income/Expenses

Other Income generated during first quarter amounting to P11.862 million is higher as compared to P7.861 million generated over the same period last year. Miscellaneous income increased by 156.21% from P2.630 million versus P6.737 million this year, while Service charges and fees decreased by 2.03% from 5.231 million last year to P5.125 million this quarter.

The bank's Other Expenses decreased by P3.653 million from P74.026 million to P70.373 million. Employee benefits decreased from P25.156 million to P24.538 million; Security, janitorial and messengerial services from P9.444 million to P7.824 million; Communication, light and water from P6.296 million to P5.916 million; Taxes and licenses from P2.755 million to P1.994 million of this quarter; Fuel and oil from P2.763 million to P2.362 million this quarter; Repair and maintenance from P0.770 million to P0.757 million this quarter; Litigation and asset acquired expenses from P1.043 million to P0.377 million this quarter and Miscellaneous from P6.811 million to P5.788 million this quarter. Notable decrease of major expenses was due to effective cost-cutting measures being implemented by the bank.

On the other hand, Depreciation and amortization increased from P7.810 million to P8.720 million this year; Occupancy increased from P7.023 million to P7.503 million of this year; while Insurance increased from P4.156 million to P4.595 million this quarter.

Net Income/Loss

The Bank recorded a net loss of P11.544 million this quarter versus P27.929 million net loss for the same period last year.

Total Resources

The bank's Total Resources was down to P4.255 billion or 14.20% lower as compared to P4.871 billion from 2015 year-end level. Due from Bangko Sentral ng Pilipinas decreased by 39.91% or P446.434 million from P1.118 billion last year-end to P672.061 million this quarter. Likewise, available for sale securities increased by 13.72% or P58.218 million from P424.195 to P482.413 million this quarter. Other Resources increased by 58.83% or P159.143 million from P270.523 million year-end balance to P429.666 million of this quarter. Investment Properties increased by 8.56%. Bank Premises, Furniture, Fixtures and Equipment was slightly lower by 0.93% from P224.501 million at year end to P222.407 million this quarter. Due from Other Banks decreased by 23.99%. Cash and Other Cash Items declined by 21.52% from P99.155 million year-end balance to P77.821 million this quarter. Likewise, Loans and Receivables were recorded at P2.181 billion lower by 12.63% or P315.278 million against year-end balance of P2.496 billion.

Total Deposit Liabilities

Deposits generated by the bank's thirty (30) branches decreased by P726.054 million from P4.144 billion year-end balance to P3.418 billion at the end of first quarter of 2016. Of this amount, P2.841 billion or 83.12% comprised savings deposits while the remaining 16.88% or P576.758 million is in the form of demand and time deposits. Total Deposit Liabilities of P3.418 billion is 93.54% of the Total Liabilities of P3.653 billion and 80.31% of the Total Liabilities and Equity of P4.255 billion.

Other Liabilities

This account increased by 99.54% from P118.214 million to P235.885 million for the first quarter of 2016. The ending balance of P235.885 million is 6.46% of the total liabilities of P3.653 billion.

Capital Funds/Equity

Capital Funds/Equity decreased by P7.629 million from P609.477 million year-end balance to P601.848 million at the end of first quarter of 2016.

Sources of Funds

Deposit generation provided the main source of loanable funds, although Deposit Liabilities decreased by 17.52% from P4.144 billion to P3.418 billion due to paydown of some back-to-back loan clients. Marketing programs are being implemented to increase and improve on deposit mix to attain higher interest margin.

Marketing Programs

To maintain its competitive advantage in public awareness and to reach a wider scope of audience, the bank continues to be aggressive in its advertising campaign through print and radio advertisements.

Key Performance Indicators

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

| Key Performance Indicators | CSB March 2016 | Industry September 2015 |
|-----------------------------------|---------------------------|------------------------------------|
| <u>Capital Adequacy</u> | | |
| Capital to Risk Assets Ratio | 19.77% | 16.53% |
| <u>Asset Quality</u> | | |
| Non-Performing Loan (NPL) Ratio | 4.17% | 4.56% |
| Non-Performing Loan (NPL) Cover | 33.85% | 72.24% |
| <u>Liquidity</u> | | |
| Loans to Deposit | 61.58% | 87.13% |
| <u>Profitability</u> | | |
| Return on Average Equity | -1.75% | 10.58% |
| Net Interest Margin | 6.55% | 5.43% |
| <u>Cost Efficiency</u> | | |
| Cost to Income | 120.28% | 65.41% |

In terms of stability, the bank continues to benefit from a higher Capital Adequacy Ratio (CAR) of 19.77% versus the industry ratio of 16.53%. The bank's NPL ratio of 4.17% surpassed the industry's 4.56% as it continues to be highly selective in its lending operation and improve on loan collection. Allowance for Probable Losses over Non-performing loans is lower at 33.85% versus the industry's 72.24%.

The bank's loan to deposit ratio of 61.58% is lower compared with the thrift banking industry's 87.13%.

In terms of profitability, the bank's Return on Ave. Equity (ROE) is (1.75%), lower than the industry of 10.58%. The Bank's Net Interest Margin is higher at 6.55% 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:

| Key Performance Indicator | Formula |
|----------------------------------|---|
| Capital to Risk Assets Ratio | BSP prescribed formula: $\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$ |
| Non-performing Loan (NPL) Ratio | $\frac{\text{Non-performing Loans}}{\text{Gross Loans}}$ |
| Non-performing Loan (NPL) Cover | $\frac{\text{Allowance for Probable Losses}}{\text{Non-performing Loans}}$ |
| Loans to Deposits Ratio | $\frac{\text{Total Loans}}{\text{Total Deposits}}$ |
| Return on Average Equity | $\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$ |
| Net Interest Margin | $\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$ |
| Cost to Income | $\frac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$ |

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

| | March 2016 | March 2015 |
|---|------------|------------|
| 1. Liquidity Ratio | 0.26:1 | 0.39:1 |
| 2. Solvency Ratios | | |
| a) current ratio | 0.26:1 | 0.39:1 |
| b) current liabilities to net worth ratio | 5.77:1 | 4.90:1 |
| 3. Debt-to-equity ratio | 6.07:1 | 5.02:1 |
| 4. Asset-to-equity ratio | 7.07:1 | 6.02:1 |
| 5. Interest rate Coverage ratio | 5.32:1 | 5.69:1 |
| 6. Profitability Ratio | | |
| a) Return on Asset Ratio | -0.27% | -0.72% |
| b) Return on Net Worth Ratio | -1.92% | -4.37% |

Earnings per Share

Basic earnings per share are as follows:

| | March 31, 2016 | March 31, 2015 |
|--|-------------------|-------------------|
| Net Income | P (11,543,763) | P (27,928,563) |
| Divided by the number of outstanding shares | <u>72,764,998</u> | <u>72,764,998</u> |
| Basic earnings per share | (0.16) ===== | (0.38) ===== |

Dividends

No dividends declared during the quarter ended March 31, 2016.

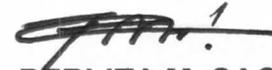
CERTIFICATION

TO WHOM THIS MAY CONCERN:

This is to certify that **MR. JOSE A.R. MELO** has been a **Member of the Board of Directors** of the **Clark Development Corporation (CDC)** at the Clark Freeport Zone (CFZ), Pampanga since April 29, 2011 UP TO THE PRESENT TIME.

This certification is being issued upon the request of **Mr. Melo** for whatever legal purposes it may serve.

Issued this 14th day of September 2015 at Clark Freeport Zone, Philippines.



PERLITA M. SAGMIT
Corporate Secretary



CITYSTATE
SAVINGS BANK
We Take Care of You.

CERTIFICATION

This is to certify that none of the named directors and officers of Citystate Savings Bank, Inc. works with the government except for JUSTICE JOSE AR MELO (Ret.). However, Justice Melo is granted permission by Clark Development Corporation (CDC) to serve as Independent Director of Citystate Savings Bank, Inc. pursuant to Section 12 Rule XVIII of the Revised Civil Service Rules.

Issued this 2nd of May 2016 at Pasig City, Philippines.


ATTY. SOCRATES M. AREVALO
Corporate Secretary

The Exchange does not warrant and holds no responsibility for the veracity of the facts and representations contained in all corporate disclosures, including financial reports. All data contained herein are prepared and submitted by the disclosing party to the Exchange, and are disseminated solely for purposes of information. Any questions on the data contained herein should be addressed directly to the Corporate Information Officer of the disclosing party.



Citystate Savings Bank, Inc. CSB

PSE Disclosure Form 17-13 - Foreign Ownership Report Reference: Section 17.13 of the Revised Disclosure Rules

Report Type

- Daily
 Monthly

Report Date: Mar 31, 2016

Voting Shares

| Security Type | Description of Security Type | Stock Symbol | Number of Foreign-Owned Shares | Number of Local-Owned Shares | Number of Outstanding Voting Shares |
|---------------|------------------------------|--------------|--------------------------------|------------------------------|-------------------------------------|
| Common | - | CSB | 83,503 | 72,681,495 | 72,764,998 |
| | | | 83,503 | 72,681,495 | 72,764,998 |

Foreign Ownership Level of Total Outstanding Voting Shares (in %) 0.11

Non-Voting Shares

| Security Type | Description of Security Type | Stock Symbol | Number of Foreign-Owned Shares | Number of Local-Owned Shares | Number of Outstanding Non-Voting Shares |
|---------------|------------------------------|--------------|--------------------------------|------------------------------|---|
| - | - | - | - | - | - |
| | | | 0 | 0 | 0 |

Foreign Ownership Level of Total Outstanding Shares (in %) 0.11

Foreign Ownership Limit (in %) 40

Other Relevant Information

-

Filed on behalf by:

| | |
|--------------------|---|
| Name | Irish Janne Escio |
| Designation | Vice President and Chief Compliance Officer |