SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended December 31, 2014

2. SEC Identification Number A1997-9587 3. BIR Tax Identification No. 005-338-421-000

4. Exact name of issuer as specified in its charter Citystate Savings Bank, Inc.

5. Makati City, Metro Manila, Philippines
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. Citystate Centre Building, 709 Shaw Boulevard, Pasig City
Address of principal office

1600
Postal Code

8. (632) 470-3333
Issuer's telephone number, including area code

9. NA
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

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

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

Yes [/] No [ ]

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

Philippine Stock Exchange — Common Stock

12. Check whether the issuer:

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

Yes [/]   No [ ]

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

Yes [/]   No [ ]

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

The aggregate market value of the voting stock held by non-affiliates of the registrant amounted to P199,129,135 representing 14,243,858 common shares valued at the current market price of P13.98 per share.

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

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

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

Yes [ ]   No [/]

DOCUMENTS INCORPORATED BY REFERENCE

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

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

PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

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

Aside from the traditional products and services offered by a thrift bank, CSBI offers a wide range of banking services, such as but not limited to innovative deposit products and services, cash management, onsite/offsite ATM facilities, corporate and retail banking, and treasury services. These products and services are marketed bank wide through its twenty-eight (28) branches/offices established mostly in Metro Manila and some in provincial branches. The bank caters to the needs of corporate, middle market and retail clients.

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

At present, the bank's distribution network for its products and services is carried out through its network of twenty-eight (28) branches/offices comprised of twenty one (21) in Metro Manila, three (3) in Bulacan, one (1) in Dagupan, one (1) in Batangas, one (1) in Urdaneta, Pangasinan and one (1) in Cebu City. These branches are each manned by a Business Manager as marketing head and supported by branch operations officer and staff. The bank also has a total of thirty nine (39) ATMs installed on sites and off sites and fully operational twenty-four (24) hours a day.

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

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

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

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

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

In terms of manpower complement, CSBI employs three hundred twenty six (326) personnel as of December 31, 2014 comprising of thirteen (13) senior officers, one hundred thirty (130) junior officers and one hundred eighty three (183) rank & file employees. CSBI expects to hire additional manpower complement to handle the growing business of the Bank in the next 12 months. At present, there is no existing labor union in the Bank and there is no collective bargaining agreement (CBA) between Management and employees as both parties maintain very cordial relationships since the start of the bank operation. Therefore, the Bank is not at all threatened by any labor dispute with its employees.

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

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

None

RISK MANAGEMENT

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

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

RISK MANAGEMENT SYSTEM AND STRUCTURE

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

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

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

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

INFORMATION ON RISK EXPOSURES

1. Credit Risk - Credit risk is the largest single risk that the bank faces. This occurs when an obligor fails to meet the terms of any contract with the bank or otherwise fails to perform as agreed. Credit policies and practices of the bank are generally sound. Credit ratios all fall within manageable level.

2. Market Risk – Market risk is the possibility of loss due to changes in market prices and rates, the correlations among them and their levels of volatility. It involves liquidity and price risk. Both risks are managed thru a common structure and process but use separate conceptual and measurement frameworks that are compatible with each other. The bank applies various form of Value-at-Risk (VAR) methodology to the trading book and balance sheet.

3. Liquidity Risk – Liquidity risk refers to the risk of not having sufficient cash and borrowing capacity to meet depositors’ withdrawals, net loan demand and other cash requirements. The bank has maintained adequate reserve position and has been a consistent interbank lender. It has not resorted to external borrowings and has a balanced source of funding from deposits and capital.

4. Operational Risk – Operational risk refers to the risk to earnings or capitals arising from problems with service or product delivery and/or breakdowns in policies and controls for ensuring the proper functioning of people, contracts, systems, and facilities. The bank has created and maintained an operating environment that ensures and protects the integrity of the company’s assets, transactions, records and data.

5. Legal Risk – Legal risk occurs when the bank does not comply with all applicable laws and regulations and therefore, exposes the bank to possible civil, criminal and/or administrative sanctions as well as unfavorable publicity and the risk that a counterparty’s performance obligations will be unenforceable. The bank has its own legal department handling cases filed by/against it. As represented by management, pending legal cases are limited to collection cases.

6. Compliance Risk – Compliance risk refers to risk to earnings or capital arising from violations of or non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The bank has a separate compliance department that handles all compliance issues with BSP, SEC, and PSE.

ITEM 2. DESCRIPTION OF PROPERTY

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

The bank leases the office spaces of its eight (8) branches from its affiliates, namely, ALC Realty Development Corporation, Filipinas Pawnshop, Inc., Citystate Tower Hotel, Inc., ALC Baliwag Cinema, and Aliw Cinema Complex, Inc. By agreement, all lease payments to said affiliates were waived for the years 1999, 2000, 2001, 2002 and 2003. The existing lease contracts of the bank are as follows:

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

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

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

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

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

TERM	*Monthly Rental*
One year	60,000.00

For its **Las Pinas Branch,** the bank leases the office space from **Rufo G. Villafuerte and Anita Alejo Villafuerte** for a period of ten (10) years, commencing on April 2, 2007 and ending on April 1, 2017.

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

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

TERM	*Monthly Rental*
First Year	68,694.00

For its **Mabini Branch,** the bank leases the office space from **Citystate Tower Hotel** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	112,412.79
Second Year	123,654.07
Third Year	136,019.48
Fourth Year	149,621.42
Fifth Year	164,583.57
Sixth Year	181,041.92
Seventh Year	199,146.11
Eight Year	219,060.73
Ninth Year	240,966.80
Tenth Year	265,063.48

For its **Pasay Taft Branch,** the bank leases the office space from **ALC Realty Development Corporation** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	144,568.13
Second Year	159,024.94
Third Year	174,927.44
Fourth Year	192,420.18
Fifth Year	211,662.20
Sixth Year	232,828.42
Seventh Year	256,111.26
Eight Year	281,722.39
Ninth Year	309,894.63
Tenth Year	340,884.09

For its **Baliuag Branch,** the bank leases the office space from **ALC Baliwag Cinema & Shopping Complex Inc.** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	124,395.89
Second Year	136,835.48

Third Year	150,519.03
Fourth Year	165,570.93
Fifth Year	182,128.02
Sixth Year	200,340.82
Seventh Year	220,374.91
Eight Year	242,412.40
Ninth Year	266,653.64
Tenth Year	293,319.00

For its **Chino Roces Branch,** the bank leases the office space from **ALC Realty Development Corporation.** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	342,374.00
Second Year	376,611.40
Third Year	414,272.54
Fourth Year	455,699.79
Fifth Year	501,269.77
Sixth Year	551,396.75
Seventh Year	606,536.43
Eight Year	667,190.07
Ninth Year	733,909.08
Tenth Year	807,299.98

For its **New Panaderos Branch,** the bank leases the office space from **ALC Realty Development Corporation** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	129,400.26
Second Year	142,340.29
Third Year	156,574.31
Fourth Year	172,231.75
Fifth Year	189,454.92
Sixth Year	208,400.41
Seventh Year	229,240.45
Eight Year	252,164.50
Ninth Year	277,380.95
Tenth Year	305,119.04

For its **Paco Branch,** the bank leases the office space from **Filipinas Pawnshop Inc.** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	156,921.42
Second Year	172,613.56

Third Year	189,874.92
Fourth Year	208,862.41
Fifth Year	229,748.65
Sixth Year	252,723.52
Seventh Year	277,995.87
Eight Year	305,795.45
Ninth Year	336,375.00
Tenth Year	370,012.50

For its **Guadalupe Branch,** the bank leases the office space from **Filipinas Pawnshop Inc.** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	72,041.20
Second Year	79,245.32
Third Year	87,169.85
Fourth Year	95,886.84
Fifth Year	105,475.52
Sixth Year	116,023.07
Seventh Year	127,625.38
Eight Year	140,387.92
Ninth Year	154,426.71
Tenth Year	169,869.38

For its **Meycauayan Branch,** the bank leases the office space from **ALC Aliw Cinema Complex Inc.** for a period of ten (10) years, commencing on January 16, 2014 and ending on January 15, 2024.

TERM	*Monthly Rental*
First Year	142,085.22
Second Year	156,293.74
Third Year	171,923.12
Fourth Year	189,115.43
Fifth Year	208,026.97
Sixth Year	228,829.67
Seventh Year	251,712.63
Eight Year	276,883.90
Ninth Year	304,572.29
Tenth Year	335,029.52

For its **Baclaran Branch,** the bank leases the office space from **Protacio Medical Services Inc.** for a period of one (1) year, commencing on January 1, 2013 and ending on December 31, 2013.

TERM	*Monthly Rental*
First Year	82,000.00
Second Year	82,000.00

Third Year	82,000.00
Fourth Year	82,000.00
Fifth Year	90,200.00

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

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

For its **Greenhills Branch,** the bank leases the office space from **MEDECOR Phillipines Inc.** for a period of one (1) year, commencing on July 19, 2014 and ending on July 18, 2015

TERM	*Monthly Rental*
One year	120,001.30

For its **Katipunan Branch,** the bank leases the office space from **MANSI Realty Inc.,** for a period of one (1) year, commencing on August 1, 2014 and ending on July 31, 2015

TERM	*Monthly Rental*
First Year	136,893.35

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

TERM	*Monthly Rental*
First Year	60,000.00
Second Year	60,000.00
Third Year	64,500.00
Fourth Year	69,337.50
Fifth Year	74,537.81

For its **Sta. Lucia Mall Branch,** the bank leases the office space from **Sta. Lucia East Commercial Corp.** for a period of five (5) years, commencing on August 3, 2012 and ending on September 30, 2017

TERM	*Monthly Rental*
First Year	110,550.00
Second Year	121,605.00
Third Year	133,765.50
Fourth Year	147,142.05

Fifth Year	161,845.20

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

1. Market Information:

   a. The registrant's shares are traded in the Philippine Stock Exchange, Inc. (PSE) after its listing on November 28, 2001. The high and low market prices in 2013 & 2014 are as follows:

QUARTERLY	**HIGH**		**LOW**	
	2013	**2014**	**2013**	**2014**
First Quarter	27.50	14.80	18.00	9.42
Second Quarter	18.00	12.70	10.00	8.70
Third Quarter	13.48	10.58	9.56	9.32
Fourth Quarter	15.98	14.00	8.58	9.88

For the interim period in 2015, the following are the high and low market prices of CSBI shares of stocks:

MONTH	**HIGH**	**LOW**
January 2015	11.10	9.03
February 2015	10.02	9.03
March 2015	10.50	10.00

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

- In 2001, 2002, 2003, 2004 and 2005 cash dividends amounting to P330,000.00, P660,000.00, P882,000.00, P882,000.00 and another P882,000.00 respectively were declared, approved by BSP and paid by the bank.

- In 2006, a 10% stock dividend equivalent to 6,614,998 shares and cash dividend amounting to P1,984,520.00 were declared, approved by BSP and paid by the bank.

- In 2007, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.

- In 2008, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.

- In 2009, cash dividend declared was 3/10 of 1% of the par value per share or Php 0.03 per share.

- All cash dividends declarations are subject to Bangko Sentral ng Pilipinas approval.

As of the date of March 31, 2015 the stocks are trading at P10.00 per share.

2a. Holders (before PSE listing)

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

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

Top 20 Stockholders

Shareholder	Number of Shares Owned	Percent to Total	Nationality
Amb. Antonio L. Cabangon Chua	7,500,000	22.73%	Filipino
D. Alfred A. Cabangon	5,000,000	15.15%	Filipino
Eternal Plans, Inc.	5,000,000	15.15%	Filipino
ALC Fortune Corporation	4,549,996	13.79%	Filipino
Fortune Guarantee & Insurance Corp.	3,500,000	10.61%	Filipino
Newstate Investment Pte. Ltd.	2,999,997	9.09%	Singaporean

Fortune Life Insurance Co., Inc.	2,400,000	7.27%	Filipino
Alfonsy G. Siy	1,000,000	3.03%	Filipino
Joaquin T. Venus, Jr.	500,000	1.52%	Filipino
Feorelio M. Bote	250,000	0.76%	Filipino
Armando C. Trinidad	200,000	0.61%	Filipino
Vicente M. Santiago, Jr.	100,000	0.30%	Filipino
Godofredo C. Uy-Tioco	1	0.00%	Filipino
J. Wilfredo A. Cabangon	1	0.00%	Filipino
D. Arnold A. Cabangon	1	0.00%	Filipino
Benjamin V. Ramos	1	0.00%	Filipino
Leow Siak Fah	1	0.00%	Malaysian
Leow Tze Wen	1	0.00%	Singaporean
Anthony Tan	1	0.00%	Singaporean
Total	**33,000,000**	**100.00%**	

Shares of stock owned by Eternal Plans Inc., ALC Fortune Corporation, Fortune Guarantee & Insurance Corp., Newstate Investment PTE. LTD., and Fortune Life Insurance Co., Inc. are being represented and voted for by Benjamin V. Ramos, Antonio L. Cabangon Chua, J. Wilfredo A. Cabangon, Leow Siak Fah, and D. Arnold A. Cabangon, respectively.

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

2b. Holders (after PSE listing)

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

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

Top 20 Stockholders

	Shareholder	No. of Shares Owned	Percent to Total	Nationality
1.	Amb. Antonio L. Cabangon Chua	14,206,114	19.52328%	Filipino
2.	D. Alfred A. Cabangon	8,283,330	11.38367%	Filipino
3.	Fortune Life Insurance, Co. Inc.	7,499,250	10.30612%	Filipino
4.	Fortune General Insurance Corporation	5,484,000	7.53659%	Filipino
5.	Top Ventures Investments & Management	4,902,594	6.73757%	Filipino
6.	Feorelio Bote	4,302,500	5.91287%	Filipino

7.	Ronaldo Zamora	3,521,000	4.83886%	Filipino
8.	Angelita Jose	3,100,074	4.26039%	Filipino
9.	Gencars-Batangas, Inc.	2,846,250	3.91156%	Filipino
10.	Eternal Plans, Inc.	2,641,700	3.63045%	Filipino
11.	D. Edgard A. Cabangon	2,143,350	2.94557%	Filipino
12.	D. Antoinette Cabangon-Jacinto	1,650,000	2.26757%	Filipino
13.	Alfonso G. Siy	1,650,000	2.26757%	Filipino
14.	Eternal Plans Inc. Life Trust Fund	1,118,643	1.53733%	Filipino
15.	Eternal Plans Inc. Pension Trust Fund	905,400	1.24428%	Filipino
16.	Eternal Plans Inc. Education Trust Fund	771,950	1.06088%	Filipino
17.	Gencars-San Pablo, Inc.	726,000	0.99773%	Filipino
18.	Aliw Broadcasting Corporation	717,300	0.98577%	Filipino
19.	J. Wilfredo A. Cabangon In Trust For: William Matthew M. Cabangon	714,450	0.98186%	Filipino
20.	J. Wilfredo A. Cabangon In Trust For: Michael Wesley M. Cabangon	714,450	0.98186%	Filipino
	TOTAL	**67,898,355**	**93.31%**	

3. Dividends

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

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

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

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

On September 14, 2006, the bank’s Board of Directors approved the declaration of cash dividends and 10% stock dividends amounting to P1,984,520 and P66,149,980, respectively, to stockholders of record, thirty (30) days from the receipt of the approval of BSP of such dividend declaration. BSP approved the dividend declaration on October 25, 2006 and was paid on December 20, 2006.

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

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

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

4. Recent Sales of Unregistered Securities

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

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

PAST PERFORMANCE

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

FINANCIAL HIGHLIGHTS

Key Operating and Financial Indicators	**2012**	**2013**	**2014**
Number of Branches / Cash Unit	25	27	28
Number of Employee	309	324	326
***********************************	-	-	-
Cash	122,575	127,556	152,247
Due from BSP and Other Banks	338,745	602,896	1,258,401
Available-For-Sale-Securities	102,026	95,249	87,226
Loans and Receivables	2,000,234	1,981,009	2,130,816
Total Resources	2,897,108	3,510,131	4,192,119
Deposit Liabilities	2,049,035	2,679,598	3,396,810
Total Liabilities	2,107,092	2,749,602	3,500,990
Capital Funds	790,016	760,530	691,128
***********************************	-	-	-
Net Interest Income	208,161	224,819	191,882
Fee-Based and Other Income	54,567	67,495	62,324
Net Income	1,683	329	-71,043
***********************************	-	-	-
Earnings per Share**	0.02	0.00	0.98
Book Value per Share*	10.86	10.45	9.50

(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 2014	INDUSTRY March 2014
Capital Adequacy		
Capital to Risk Ratio	27.31%	14.95%
Asset Quality		
Non-performing Loan (NPL) Ratio	5.74%	4.94%
Non-Performing Loan (NPL) Cover	44.42%	71.36%
Liquidity		
Loans to Deposit	59.11%	85.62%
Profitability		
Return on Average Equity	-9.15%	6.85%
Net Interest Margin	7.08%	5.28%
Cost Efficiency		
Cost to Income	141.69%	67.35%

In terms of stability, the bank continues to enjoy a higher Capital Adequacy Ratio (CAR) of 27.31% versus the industry ratio of 14.95%. The Bank's NPL ratio of 5.74% is higher compared with the industry's 4.94%. Its Allowance for Probable Losses over Non-performing loans is 44.42% versus the industry's 71.36% as it continues to be highly selective in its lending operation and improve on loan collection.

The Bank's loan to deposit ratio of 59.11% is lower compared with the thrift banking industry's 85.62%.

In terms of profitability, the bank is lower than the thrift banking industry with a Return on Ave. Equity (ROE) of -9.15%, versus the industry of 6.85%. Its Net Interest Margin is 7.08% as against the industry's 5.28%.

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 Asset 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 Deposit 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 2014	December 2013
1. Liquidity Ratio	0.41:1	0.35:1
2. Solvency Ratios		
a) current ratio	0.41:1	0.35:1
b) current liabilities to net ratio	4.87:1	3.59:1
3. Debt-to-equity ratio	5.06:1	3.62:1
4. Asset-to-equity ratio	6.06:1	4.62:1
5. Interest rate Coverage ratio	2.18:1	0.64:1
6. Profitability Ratio		
a) Return on Asset Ratio	-1.69%	0.01%
b) Return on Net Worth Ratio	-10.28%	0.04%

December 31, 2012

Interest Income
Gross Interest Income ended higher than prior year by 26.48% or P49.462 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 P217.338 million, 34.99% much better than the P161.001 million recorded last year as a result of the steady growth in the Bank's loan portfolio. Likewise, Available for Sale Securities rose from P1.278 million to P5.217 million. On the other hand, interest income on Due from BSP and Other Banks was lower at P13.694 million versus P21.472 million a year ago. Interest income on Held to Maturity declined to P0.00 due to maturities of various placements.The Gross Interest Income of P236.249 million represents 81.24% of the Bank’s total gross income for the year 2012 which amounted to 290.816 million.

Interest Expense
Interest Expense on the Bank's deposit liabilities was higher by 2.27% at P27.904 million versus last year’s P27.284 million on account of higher deposit level. The Interest Expense of P27.904 million is 11.81% of the Gross Interest Income of P236.249 million.

Other Income
Other Income comprising of Service Charges and Fees,Trading Gains and Miscellaneous Income posted a 7.77% increase in 2012 versus its performance in 2011. Of the 2012 increase in Other Operating Income, fee-based sources accounted for 9.38%, Trading Gains moderately increased by 0.28% from P2.040 million in 2011 versus P2.045 million in 2012 while Miscellaneous Income posted an increase of 17.95%. The amount of P54.567 million represents 18.76% of the bank’s Total

Gross Income in 2012 in the amount of P290.816 million.

Other Expenses
As of December 31, 2012, the Total Other Expenses increased by P41.339 million from P201.769 million versus last year's figure of P243.108 million. This was mainly due to increases in Repairs and Maintenance which increased by 35.47% from P3.323 million last year versus P4.502 million this year. Employee Benefits from P68.208 million to P88.124 million or an increase of 29.20%. Fuel and Oil increased by P26.71% from P5.781 million to P7.325 million while Security, Janitorial and Messenger Services from P20.430 million to P25.525 million. Likewise, Taxes and Licenses increased from P12.183 million to P13.984 million, while Communication, Light and Water increased by 14.44% from P19.512 million to P22.330 million, Occupancy from P24.582 million to P26.073 million. Other operating expenses amounted to P24.039 from P16.278 million last year and Repairs and Maintenance increased by 35.47% from P3.323 million last year versus P4.502 million this year. However, Litigation / Assets Acquired decreased by 26.18% and Depreciation and Amortization lowered by 12.75% from P17.0330 million to P15.120 million.

Net Income
The Bank's Net Income for the year increased to P1.683 million compared to last year's bottom line of P1.034 million.

Cash and Other Cash Items
Cash and Other Cash items up by 30.82% from P93.699 million in the year ending 2011 as against P122.575 million in 2012.

Due from BSP and Other Banks
Due from BSP and Other Banks decreased by 93.85% from P656.671 million in 2011 to P338.745 million in 2012 as funds were placed in Special Deposit Account (SDA) with the BSP and investible funds were placed in local banks. Due from BSP and Other Banks is 11.69% of Total Resources

Available-For-Sale Securities
Available-for-Sale Investments representing 3.52% of total assets decreased by 4.85% from P107.230 million to P102.026 million in 2012.

Loans and Receivables
Loans and Receivables grew by 32.24% to P2.000 billion from P1.513 billion in 2011. The amount of P2.000 billion is 69.04% of Total Resources.

Bank Premises, Furniture, Fixtures and Equipment
This account increased to P189.032 million from P186.980 million due to accumulated depreciation and amortization. The net amount of P189.032 million represents 6.52% of the Total Resources.

Other Resources

Other Resources increased by 25.00% from P87.622 million in 2011 to P109.531 million in 2012. The amount of P109.531 million is 3.78% of Total Resources.

Total Deposit Liabilities
Deposits generated by the Bank's twenty-five (25) branches increased by P198.031 million. From P1.851 billion, Total Deposit Liabilities reached P2.049 billion at the end of 2012. Of this amount, P1.703 billion or 83.11% comprised savings deposits while the remaining 13.17% or P269.824 million is in the form of demand deposits. The 18.86% increase in Deposit Liabilities can be attributed to the Bank's aggressive marketing strategy. The Total Deposit Liabilities of P2.049 billion is 97.24% of the Total Liabilities and 70.73% of the Total Liabilities and Equity.

Other Liabilities
This account increased by 9.10% from P53.213 million to P58.057 million as manager's checks increased by P4.844 million. The ending balance of P58.057 million is 2.76% of the total liabilities.

Capital Funds/Equity
Capital Funds/Equity increased by P14.215 million in 2012. Net Income for the year was P1.683 million.

Capital Adequacy Ratio (CAR)
The bank posted a higher than industry risk-based capital adequacy ratio of 39.64% versus the 15.03% 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 92.37%.

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 a 5.37% 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 P46.795 million. The amount of P64.387 million represents 22.51% of the bank's Total Gross Income in 2014 in the amount of P285.999 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%.

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 plans to open an additional of two (2) branches. The bank's clients could look forward to more innovative, competitive and customized products and services.

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

Prospects for the Future

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

- Establishment and/or acquisition of additional branch network;
- Development of more bank products and services in connection with its quasi-banking license;
- 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 surpass its 2014 performance as it pursues aggressively its marketing strategies to deepen its reach to its target market.

ITEM 7. FINANCIAL STATEMENTS

The Audited Financial Statements of Citystate Savings Bank as of December 31, 2014 is presented in Annex I of this report and contains the following:

A. Report of Independent Auditors
B. Statement of Condition as of December 31, 2014 and 2013
C. Statement of Income for the years ended December 31, 2014 and 2013
D. Statement of Changes in Equity for the years ended December 31, 2014 and 2013
E. Statement of Cash flows for the years ended December 31, 2014 and 2013
F. Accompanying notes to the Financial Statements
G. Supplementary Schedules
H. Statement of Management's Responsibility for Financial Statements

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

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

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

Independent Public Accountants

External Audit Fees and Services

The external audit and consultancy fees for the years 2014 and 2013 were as follows:

	Year ended December 31, 2014	Year ended December 31, 2013
Audit Fees (Incurred by Registrant)	P1,080,000.00	P890,000.00
Audit-Related Fees	-	-
Tax Fees - VAT	129,600.00	106,800.00
All Other Fees	-	-
Total	**P1,209,600.00**	**P996,800.00**

The accounting firm of Punongbayan & Araullo (Member of Grant Thornton International) has been the Company's Independent Public Accountant for the last fifteen (15) 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 fifteen (15) years where Punongbayan & Araullo and the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

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

PART III – CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

Board of Directors

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

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

Amb. Antonio L. Cabangon Chua, 80, Chairman. Ambassador Cabangon Chua is a Filipino citizen. He is a full colonel in the reserve force of the Armed Forces of the Philippines and an honorary member of the PMA Class '56. He is a graduate of the University of the East in 1956, with a Bachelor of Science in Business Administration and a Certified Public Accountant. He holds a Doctorate in Humanities, Honoris Causa from Adamson University. He was Chairman of the bank from 1997 to 2000 and was re-elected in 2011. He is the founder of Fortune Insurance Group, Eternal Group of Companies, and Aliw Broadcasting Corporation. He is also involved in the publications as Chairman Emeritus – Owner of Philippine Business Daily Mirror Publishing, Inc, and Philippine Graphic Publications, Inc.

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

Alfonso G. Siy, 67, 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.

Andres Y. Narvasa, Jr., **58, Vice Chairman and Chief Executive Officer**. Mr. Narvasa is a Filipino citizen. He is a graduate of Ateneo de Manila University with a Bachelor of Arts degree in Economics in 1978. Aside from being a director of the bank, he is also the President and CEO of AYN Resource Management Group since September 2000. Prior to this, he was the Treasurer of UBP Capital from 1990 to 1991. He was also the Chief FX Trader of various foreign banks from 1980 to 1989.

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

Atty. Rey D. Delfin, 50, President. Mr. Delfin is a Filipino citizen. He has been with Citystate Bank since July of 1997. Prior to this, he had worked for Far East Bank & Trust Company; Banco De Oro Universal Bank; Keppel Monte Bank; Jimeno, Jalandoni and Cope Law Office; and Joaquin Cunanan & Co. (Price Waterhouse Coopers). Mr. Delfin is a graduate of University of the Philippines with a Bachelor of Science in Business Administration in 1985; and San Beda College with a Bachelor of Laws in 1994. He is a Certified Public Accountant (CPA) and a Lawyer.

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

J. Antonio A. Cabangon, Jr., 46, Managing 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., Chairman of Fortune Medicare, Inc., President of Aliw Broadcasting Corporation and Treasurer of Fortune Life Insurance, Co.

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

D. Arnold A. Cabangon, 44, 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 and a Board Member of Fortune Medicare, Inc.

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

D. Alfred A. Cabangon, 49, Director. 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 Guarantee and Insurance Corporation, Fortune Medicare, ALC Industrial & Commercial Development Corporation, and ALC Realty & Development Corporation.

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

Engr. Feorelio M. Bote, 72, Director, is a citizen of the Philippines. Mr. Bote graduated from the 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 Key Finance and Investment Corporation and 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, 81, 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, 81, 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 presently 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, 65, 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 Law Firm. He is presently a director of Quialex Realty corp. 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.

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

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

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

Justice Jose Armando R. Melo, 82, Independent Director. Mr. 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.

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

Messrs. Lucito L. Sioson and Jose Armando R. Melo are the two (2) independent directors of the Bank. They have no shareholdings in any of the affiliates of the Bank.

Executive Officers

Andres Y. Narvasa, Jr., **58, Vice Chairman and Chief Executive Officer**. Mr. Narvasa is a Filipino citizen. He is a graduate of Ateneo de Manila University with a Bachelor of Arts degree in Economics in 1978. Aside from being a director of the bank, he is also the President and CEO of AYN Resource Management Group since September 2000. Prior to this, he was the Treasurer of UBP Capital from 1990 to 1991. He was also the Chief FX Trader of various foreign banks from 1980 to 1989. He has been a director of Citystate Savings Bank, Inc. since January 2007.

Atty. Rey D. Delfin, 50, President. Mr. Delfin has been with Citystate Bank since July of 1997. Prior to this, he had worked for Far East Bank & Trust Company; Banco De Oro Universal Bank; Keppel Monte Bank; Jimeno, Jalandoni and Cope Law Office; and Joaquin Cunanan & Co. (Price Waterhouse Coopers). Mr. Delfin is a graduate of University of the Philippines with a Bachelor of Science in Business Administration in 1985; and San Beda College with a Bachelor of Laws in 1994. He is a Certified Public Accountant (CPA) and a Lawyer.

Eduardo O. Olavario, 60, Vice President, is the head of the General Accounting Department. Before joining the bank in August of 1997, Mr. Olavario had worked for Monte de Piedad & Savings Bank for almost 20 years. He is a graduate of Philippine College of Commerce with a Bachelor of Science in Commerce, major in Accounting in 1971. Mr. Olavario is a Certified Public Accountant (CPA).

Emerson G. Igarta, 50, Vice President, is the head of the 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).

Ruel L. Angga, 51, Vice President, is the bank's Compliance Officer and head of the Compliance Department. He joined the bank in June 1999. Prior to this, he had worked for the International Corporate Bank and Union Bank of the Philippines. He is a graduate of the Philippine School of Business Administration with a Bachelor of Science in Business Administration major in Management in 1990. He is also a graduate of Electronics Technology from Don Bosco Technical College in 1983.

Des Corazon D. Cruz, 55, Vice President, is the head of Branch Support Services 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.

Meliton A. Narciso, 42, Assistant Vice President, is the bank’s Chief Risk Officer and Officer-in-Charge of the Treasury Department. He joined the bank on January 30, 2013. He started his investment banking career at Multinational Bancorporation in 1999. He also worked as Investment Officer of Maybank Trust Department in 2009. 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 Masters in Business Administration at the Ateneo de Manila University in 2002.

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

Lawrence K. Cementina, 37, Assistant Vice President, is the head of the Branch Banking Department. 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.

Jeffrey B. Domingo, 41, Assistant Vice President, is the bank’s Information Security Officer. 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.

Maria Christine A. Villanueva, 40, Assistant Vice President, is the bank's Quality Assurance Officer. She joined the bank in May 2012. She started her banking career in 1997 at International Exchange Bank. She graduated from Polytechnic University of the Philippines with a degree in Bachelor of Computer Data Processing Management in 1995.

Joseph D. Gonzaga, 38, Assistant Vice President, is the head of Accounts Management Department. He joined the bank on October 16, 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.

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

Family Relationships

Amb. Antonio L. Cabangon Chua is the father of Messrs. D. Alfred A. Cabangon, D. Arnold A. Cabangon and J. Antonio A. Cabangon, Jr. while the latter three are siblings.

Involvement in Certain Legal Proceedings

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

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the aggregate compensation of the executive officers of the Bank for the period ended December 31, 2013 to December 31, 2014 (with estimate for year 2015).

Year	Name and Principal Position	Salaries	Bonuses
For the twelve Months Ended December 31, 2013	EXECUTIVE OFFICERS Atty. Rey D. Delfin – President Vivian C. Rada-First Vice President Eduardo O. Olavario – Vice President Jeffrey T. Tantiado – Vice President Emerson G. Igarta – Vice President	6,653,649.24	1,108,941.54
	All Executive Officers as a Group	7,762,590.78	
	All Board Directors and Officers as a Group	7,762,590.78	
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
	All Executive Officers as a Group	8,245,590.78	
	All Board Directors and Officers as a Group	8,245,590.78	
For the Year Ending December 31, 2015 (Estimated)	EXECUTIVE OFFICERS Andres Y. Narvasa, Jr. - Chief Executive Officer Benjamin V. Ramos – President Lawrence K. Cementina – Asst. Vice President Emerson G. Igarta – Vice President Des Corazon D. Cruz – Vice President	7,940,870.76	1,323,478.46
	All Executive Officers as a Group	9,264,349.22	

	All Board Directors and Officers as a Group	9,264,349.22

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

Except for Atty. Rey D. Delfin, 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.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

1. Security Ownership of Certain Record and Beneficial Owners

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

Title of class	Name, address of record owner and relationship with issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Antonio L. Cabangon Chua, Chairman 5th Flr., Dominga Bldg. III, 2113 Chino Roces Ave., Makati City	Antonio L. Cabangon Chua, Beneficial & Record Owner	Filipino	14,206,114	19.52328%
	D. Alfred A. Cabangon, Director 2nd Flr., Citystate Centre Bldg., 709 Shaw Blvd., Pasig City	D. Alfred A. Cabangon, Beneficial & Record Owner	Filipino	8,283,330	11.38367%
	Fortune Life Insurance Company, Inc. (Affiliate) Fortune Life Bldg., 162 Legaspi St., Legaspi Village, Makati City	D. Arnold A. Cabangon, Director	Filipino	7,499,250	10.30612%
	Fortune General Insurance Corporation (Affiliate) 4th Flr., Citystate Centre Bldg., 709 Shaw Blvd., Pasig City	J. Antonio A. Cabangon, Jr. Director	Filipino	5,484,000	7.53659%

	Top Ventures Investments & Management (Affiliate) Dominga Bldg. III, 2113 Chino Roces Ave., Makati City	Antonio L. Cabangon Chua, Director	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., Antonio L. Cabangon Chua, and D. Arnold A. Cabangon, respectively.

1. Security Ownership of Management as of March 31, 2015

Directors

Title of class	Name of Beneficial Owner	Amount and nature of beneficial ownership	Citizenship	Percent of Class
Common	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	Andres Y. Narvasa	110	Filipino	0.00%
Common	Lucito L. Sioson	1	Filipino	0.00%
Common	Pedro E. Paraiso	1	Filipino	0.00%
Common	D. Arnold A. Cabangon	1	Filipino	0.00%
Common	Emmanuel R. Sison	1	Filipino	0.00%

Common	J. Armando R. Melo	1	Filipino	0.00%
	TOTAL	28,466,520		39.11%

<u>Officers</u>

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

<u>Directors and Officers as a Group</u>

Title of Class	Director	Officer	Total	Percent of Class
Common	28,466,520	0	28,466,520	39.11%

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

<u>Voting Trust Holders of 5% or More</u>

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

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Relationships and Related Transactions

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

Transactions with Related Parties

1. **GENCARS, INC.**
This company has existing credit line with the Bank secured by Trust Receipts, Deed of Assignments over existing and future inventory/ies of all vehicles allocated/delivered by Isuzu Philippines, Continuing Suretyship of Antonio L. Cabangon Chua for the full amount of the line.

Gencars, Inc. is chaired by Antonio L. Cabangon Chua who controls 19% of the company's shares, while his son J. Wilfredo A. Cabangon owns 10%. The President of Gencars, Inc., D. Edgard A. Cabangon, is the son of Antonio L. Cabangon Chua and the brother of Wilfredo A. Cabangon and D. Alfred A. Cabangon.

2. **BROWN MADONNA PRESS, INC.**

Brown Madonna Press, Inc. is chaired by Antonio L. Cabangon who owns 20% of total shares. The other shares owned by T. Anthony C. Cabangon, D. Antoinette C. Cabangon, D. Adrian C. Cabangon, and D. Analyn C. Cabangon who represents 20% of the shares each, are related to Antonio L. Cabangon Chua by second degree consanguinity.

3. **ETERNAL GARDENS MEMORIAL PARK CORPORATION**
This company has an existing loan secured by Real Estate Mortgage which will mature on December 30, 2030.

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

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

5. **ALC BALIWAG CINEMA & SHOPPING COMPLEX, INC.**
The Bank leases its Baliuag branch from ALC Baliwag Cinema & Shopping Complex, Inc. Antonio L. Cabangon Chua owns 60% of this company, D. Edward A. Cabangon owns 25% of the shares, while J. Wilfredo A. Cabangon, D. Alfred A. Cabangon and D. Arnold A. Cabangon own 5% of the total shares each.

6. **ALC REALTY DEVELOPMENT CORPORATION**
The Bank leases its Chino Roces, New Panaderos and Pasay/Libertad branches from ALC Realty Development Corporation. Antonio L. Cabangon Chua owns 44% of the company's total shares; J. Wilfredo A. Cabangon owns 28% and T. Anthony C. Cabangon who is related by second degree of consanguinity to the former owns 28% of the total shares.

7. **ALIW CINEMA COMPLEX, INC.**
The bank leases its Meycauayan branch from Aliw Cinema Complex, Inc. 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 own 15% of the total shares each.

8. **CITYSTATE TOWER HOTEL, INC.**
The Bank leases its A. Mabini branch from Citystate Tower Hotel, Inc. Antonio L. Cabangon Chua owns 60% 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 own 8% of the total shares each.

9. FORTUNE LIFE INSURANCE COMPANY
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.

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

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

Affiliates and Sister Companies:

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

PART IV – CORPORATE GOVERNANCE

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

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

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

Please refer to the attached *Consolidated Changes in the ACGR for 2014*.

PART V - EXHIBITS AND SCHEDULES

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

a. Exhibits
   Annex I - Audited Financial Statements conducted by Punongbayan and Araullo, incorporated by reference in ITEM 7, Part II of this report.
   Schedule I - Schedule of Accounts Receivable with Related Parties
   Schedule II - Schedule of Accounts Payable with Related Parties
   Schedule III - Map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates

b. Reports on SEC Form 17-C

1. Resignation of Atty. Roger S. Diaz as the Bank's Legal Counsel and Assst. Corporate Secretary
2. Schedule of Annual Stockholders’ Meeting
3. Relocation of Pasay Road Branch to be known as Perea Branch
4. Postponement of Annual Stockholders' Meeting
5. Opening of Urdaneta Branch
6. Appointment of Atty. Joel C. Bantasan as the Bank's Asst. Corporate Secretary
7. Balance Sheet as of March 31, 2014
8. Resignation of Jocelyn J. Taccad as the Head of Human Resources and Administration Department of the Bank
9. Result of the Annual Stockholders' Meeting

10. Certificate of Qualification for Independent Directors
11. Resignation of Emily A. Laurente as Head of the Trust Department of the Bank
12. Balance Sheet as of June 30, 2014
13. Resignation of Ely J. Gacute as Head of the Accounts Management Department of the Bank
14. Approval of the Board of Directors on the revisions in the Manual of Corporate Governance
15. Appointment of Joseph D. Gonzaga as Account Management Department Head and Runald F. Ledda as Deputy Trust Officer
16. Schedule of Special Stockholders’ Meeting
17. Result of the Special Stockholders' Meeting
18. Balance Sheet as of September 30, 2014

19. Resignation of Michael B. Chong as Head of the Treasury Department of the Bank and Fixed Income Market Salesman
20. Certificate of Attendance on Corporate Governance Seminar of the bank's Board of Directors and key officers
21. Appointment of Meliton A. Narciso as Officer-in-Charge of the Treasury Department and Justice Jose Armando R. Melo as Chairman of Corporate Governance Committee

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on April 28, 2015.

By:

Andres Y. Narvasa, Jr. Principal Executive Officer	**Eduardo O. Olavario** Comptroller
Benjamin V. Ramos Principal Operating Officer	**Eduardo O. Olavario** Financial Officer/Accounting Officer
Ruel L. Angga Compliance Officer	**Atty. Socrates M. Arevalo** Corporate Secretary

SUBSCRIBED AND SWORN to before me this 28 APR 2015 affiant(s) exhibiting to me his/her Social Security System Number, as follows:

NAMES	**SOCIAL SECURITY SYSTEM NO.**
Andres Y. Narvasa, Jr.	03-4991253-2
Benjamin V. Ramos	03-7460820-6
Eduardo O. Olavario	03-4421147-4
Ruel L. Angga	03-6369702-4
Atty. Socrates M. Arevalo	03-6715828-4

Notary Public

Doc No. 125;
Page No. 106;
Book No. 11;
Series of 2015

JOEL B. [illegible]
Notary Public for Pasig, Pateros, Taguig and San Juan, Philippines
Commission No. 223 (2014-2015)
Commission Expires December 31, 2015
PTR No. 0596242, issued January 07, 2015, Quezon City
IBP Lifetime Membership No. 013170
Roll No. [illegible], released April 30, 2009
MCLE Compliance No. [illegible] December 10, 2013/Quezon City
(5th MCLE Compliance (24 Units/Dec. 07, 2013)
2/F Citystate Centre Building
709 Shaw Boulevard, Pasig City

CITYSTATE
SAVINGS BANK
www.citystatesavings.com

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, 2014 and 2013**, 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.

AMB. ANTONIO L. CABANGON CHUA
Chairman of the Board

BENJAMIN V. RAMOS
President

EDUARDO O. OLAVARIO
Chief Financial Officer

CITYSTATE
SAVINGS BANK
www.citystatesavings.com

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

SUBSCRIBED AND SWORN to before me on 20 APR 2015 at Pasig City, affiants exhibiting to me:

NAME	SOCIAL SECURITY SYSTEM NO.
Amb. Antonio L. Cabangon	03-1121792-2
Benjamin V. Ramos	03-7460820-6
Eduardo O. Olavario	03-4421147-4

Notary Public

JOEL C. BANTASAN
Notary Public for Pasig, Pateros, Taguig and San Juan, Philippines
Commission No. 223 (2014-2015)
Commission Expires December 31, 2015
PTR No. 0596242, issued January 07, 2015, Quezon City
IBP Lifetime Membership No. 013170
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MCLE Compliance No. IV-0023043/December 16, 2013/Quezon City
(5th MCLE Compliance (24 Units/Dec. 07, 2013)
2/F Citystate Centre Building
709 Shaw Boulevard, Pasig City

Doc. No. 443;
Page No. 98;
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Financial Statements and Independent Auditors' Report

Citystate Savings Bank, Inc.

December 31, 2014, 2013 and 2012

Punongbayan & Araullo
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Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

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, 2014 and 2013, 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, 2014, 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.

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, 2014 and 2013, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 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, 2014 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: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 4748317, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-3 (until Apr. 30, 2015)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 28, 2015

APR 29 2015
GEORGE O. LAPIN
COLLECTION SECTION

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
R E S O U R C E S			
CASH AND OTHER CASH ITEMS		P 152,246,760	P 127,556,153
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	1,037,862,022	602,895,583
DUE FROM OTHER BANKS	8	220,538,904	196,418,818
AVAILABLE-FOR-SALE SECURITIES	9	87,226,323	95,249,914
LOANS AND RECEIVABLES - Net	10	2,130,815,636	1,981,009,231
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	225,147,757	223,137,655
INVESTMENT PROPERTIES - Net	12	22,481,257	26,542,525
OTHER RESOURCES - Net	13	315,800,106	257,278,193
TOTAL RESOURCES		P 4,192,118,765	P 3,510,088,072
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14		
Demand		P 301,591,137	P 279,287,419
Savings		2,688,820,124	2,124,948,822
Time		406,398,497	275,361,324
Total Deposit Liabilities		3,396,809,758	2,679,597,565
OTHER LIABILITIES	15	104,180,513	69,960,638
Total Liabilities		3,500,990,271	2,749,558,203
EQUITY	16	691,128,494	760,529,869
TOTAL LIABILITIES AND EQUITY		P 4,192,118,765	P 3,510,088,072

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
INTEREST INCOME				
Loans and receivables	10	P 201,449,274	P 240,257,936	P 217,338,321
Due from BSP and other banks	7, 8	15,356,728	8,574,990	13,694,352
Available-for-sale securities	9	4,806,174	3,433,888	5,216,732
		221,612,176	252,266,814	236,249,405
INTEREST EXPENSE				
Deposit liabilities	14	29,728,494	27,207,879	27,904,120
Others		1,691	239,774	184,465
		29,730,185	27,447,653	28,088,585
NET INTEREST INCOME		191,881,991	224,819,161	208,160,820
IMPAIRMENT LOSSES - Net	10, 13	27,072,490	228,149	6,612,310
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		164,809,501	224,591,012	201,548,510
OTHER OPERATING INCOME				
Service charges and fees		17,499,146	16,655,356	15,880,133
Trading gains	9	92,941	-	2,045,867
Miscellaneous	17	44,731,658	51,385,204	36,640,942
		62,323,745	68,040,560	54,566,942
OTHER OPERATING EXPENSES				
Employee benefits	18	106,833,959	100,211,569	87,803,459
Security, janitorial and messengerial services		32,546,262	30,859,408	25,524,697
Occupancy	24	28,166,835	27,795,714	26,073,184
Communication, light and water		27,782,098	24,764,326	22,329,727
Depreciation and amortization	11, 12, 13	19,526,318	16,930,896	15,119,632
Taxes and licenses	26	16,010,345	15,074,270	13,983,991
Insurance		14,639,209	14,856,969	11,934,640
Fuel and oil		11,006,058	10,292,167	7,324,884
Litigation and asset acquired expenses	12	5,340,584	5,687,774	4,151,772
Repairs and maintenance		3,482,882	4,853,944	4,501,882
Miscellaneous	17	26,772,927	23,808,861	24,336,819
		292,107,477	275,135,898	243,084,687
PROFIT (LOSS) BEFORE TAX		(64,974,231)	17,495,674	13,030,765
TAX EXPENSE	19	6,069,266	17,166,734	11,332,048
NET PROFIT (LOSS)		(P 71,043,497)	P 328,940	P 1,698,717
Earnings (Losses) Per Share Basic and Diluted	22	(P 0.98)	P 0.00	P 0.02

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
R E S O U R C E S			
CASH AND OTHER CASH ITEMS		**P 152,246,760**	P 127,556,153
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**1,037,862,022**	602,895,583
DUE FROM OTHER BANKS	8	**220,538,904**	196,418,818
AVAILABLE-FOR-SALE SECURITIES	9	**87,226,323**	95,249,914
LOANS AND RECEIVABLES - Net	10	**2,130,815,636**	1,981,009,231
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**225,147,757**	223,137,655
INVESTMENT PROPERTIES - Net	12	**22,481,257**	26,542,525
OTHER RESOURCES - Net	13	**315,800,106**	257,278,193
TOTAL RESOURCES		**P 4,192,118,765**	P 3,510,088,072
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14		
Demand		**P 301,591,137**	P 279,287,419
Savings		**2,688,820,124**	2,124,948,822
Time		**406,398,497**	275,361,324
Total Deposit Liabilities		**3,396,809,758**	2,679,597,565
OTHER LIABILITIES	15	**104,180,513**	69,960,638
Total Liabilities		**3,500,990,271**	2,749,558,203
EQUITY	16	**691,128,494**	760,529,869
TOTAL LIABILITIES AND EQUITY		**P 4,192,118,765**	P 3,510,088,072

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
INTEREST INCOME				
Loans and receivables	10	**P 201,449,274**	P 240,257,936	P 217,338,321
Due from BSP and other banks	7, 8	**15,356,728**	8,574,990	13,694,352
Available-for-sale securities	9	**4,806,174**	3,433,888	5,216,732
		221,612,176	252,266,814	236,249,405
INTEREST EXPENSE				
Deposit liabilities	14	**29,728,494**	27,207,879	27,904,120
Others		**1,691**	239,774	184,465
		29,730,185	27,447,653	28,088,585
NET INTEREST INCOME		**191,881,991**	224,819,161	208,160,820
IMPAIRMENT LOSSES - Net	10, 13	**27,072,490**	228,149	6,612,310
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES AND RECOVERIES		**164,809,501**	224,591,012	201,548,510
OTHER OPERATING INCOME				
Service charges and fees		**17,499,146**	16,655,356	15,880,133
Trading gains	9	**92,941**	-	2,045,867
Miscellaneous	17	**44,731,658**	51,385,204	36,640,942
		62,323,745	68,040,560	54,566,942
OTHER OPERATING EXPENSES				
Employee benefits	18	**106,833,959**	100,211,569	87,803,459
Security, janitorial and messengerial services		**32,546,262**	30,859,408	25,524,697
Occupancy	24	**28,166,835**	27,795,714	26,073,184
Communication, light and water		**27,782,098**	24,764,326	22,329,727
Depreciation and amortization	11, 12, 13	**19,526,318**	16,930,896	15,119,632
Taxes and licenses	26	**16,010,345**	15,074,270	13,983,991
Insurance		**14,639,209**	14,856,969	11,934,640
Fuel and oil		**11,006,058**	10,292,167	7,324,884
Litigation and asset acquired expenses	12	**5,340,584**	5,687,774	4,151,772
Repairs and maintenance		**3,482,882**	4,853,944	4,501,882
Miscellaneous	17	**26,772,927**	23,808,861	24,336,819
		292,107,477	275,135,898	243,084,687
PROFIT (LOSS) BEFORE TAX		**(64,974,231)**	17,495,674	13,030,765
TAX EXPENSE	19	**6,069,266**	17,166,734	11,332,048
NET PROFIT (LOSS)		**(P 71,043,497)**	P 328,940	P 1,698,717
Earnings (Losses) Per Share (Basic and Diluted)	22	**(P 0.98)**	P 0.00	P 0.02

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
NET PROFIT (LOSS)		**(P 71,043,497)**	P 328,940	P 1,698,717
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit post-employment plan	18	**3,940,141**	(3,470,458)	(3,018,304)
Tax income (expense)	19	**(1,182,042)**	1,041,137	905,491
		2,758,099	(2,429,321)	(2,112,813)
Item that will be reclassified to profit or loss				
Fair valuation of available-for-sale securities				
Fair value gains (losses) during the year	9	**(1,115,977)**	(2,616,050)	8,805,967
Reversal of fair value gains on available-for-sale securities sold during the year	9	**-**	-	(1,759,560)
Tax income (expense)	19	**-**	397,944	(671,513)
		(1,115,977)	(2,218,106)	6,374,894
Total Other Comprehensive Income (Loss) - net of tax		**1,642,122**	(4,647,427)	4,262,081
TOTAL COMPREHENSIVE INCOME (LOSS)		**(P 69,401,375)**	(P 4,318,487)	P 5,960,798

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional Paid-in Capital	Revaluation Reserves	Surplus Reserves	Retained Earnings (Deficit)	Total
Balance as of January 1, 2014	16	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	-	-	-	139,683	(139,683)	-
Total comprehensive income (loss) for the year	16	-	-	1,642,122	-	(71,043,497)	(69,401,375)
Balance as of December 31, 2014		**P 727,649,980**	**P 2,222,444**	**P 4,287,235**	**P 807,597**	**(P 43,838,762)**	**P 691,128,494**
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		P 727,649,980	P 2,222,444	P 2,645,113	P 667,914	P 27,344,418	P 760,529,869
Balance as of January 1, 2012		P 727,649,980	P 2,222,444	P 3,030,459	P 363,134	P 25,621,541	P 758,887,558
Transfer to reserves	20	-	-	-	144,563	(144,563)	-
Total comprehensive income for the year	16	-	-	4,262,081	-	1,698,717	5,960,798
Balance as of December 31, 2012		P 727,649,980	P 2,222,444	P 7,292,540	P 507,697	P 27,175,695	P 764,848,356

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		(P 64,974,231)	P 17,495,674	P 13,030,765
Adjustments for:				
Interest income	7, 8, 9, 10	(221,612,176)	(252,266,814)	(236,249,405)
Interest expense	14	29,730,185	27,447,653	28,088,585
Impairment losses - net	10	27,072,490	228,149	6,612,310
Loss (gain) on sale/retirement of bank premises		(25,563,500)	63,263	978,553
Depreciation and amortization	11, 12	19,526,318	16,930,896	15,119,632
Gains from assets acquired/exchanged	17	(2,975,246)	(33,537,450)	(20,258,791)
Amortization of computer software and deferred charges	17	724,102	617,304	1,008,982
Unrealized foreign currency exchange losses (gains)	17	172,566	(545,319)	56,190
Trading losses (gains)	9	92,941	-	(2,045,867)
Fair value loss on security deposits		-	-	213,850
Operating loss before working capital changes		(237,806,551)	(223,566,644)	(193,445,196)
Increase in loans and receivables		(140,935,634)	(29,902,384)	(487,827,394)
Decrease in investment properties		5,748,513	53,194,002	15,404,077
Increase in other resources		(32,390,200)	(146,230,742)	(8,780,499)
Increase in deposit liabilities		717,172,014	630,619,884	197,781,478
Increase (decrease) in other liabilities		25,266,729	(8,268,393)	17,073,212
Cash generated from (used in) operations		337,054,871	275,845,723	(459,794,322)
Interest received		234,226,350	252,327,035	213,999,249
Interest paid		(29,690,007)	(27,536,342)	(27,839,314)
Cash paid for income taxes		5,641,981	(5,869,103)	(7,257,797)
Net Cash From (Used in) Operating Activities		547,233,195	494,767,313	(280,892,184)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of bank premises, furniture, fixtures and equipment	11	(76,059,644)	(46,349,972)	(14,832,943)
Disposals/maturity of available-for-sale securities	9	6,650,000	4,000,000	44,296,745
Acquisitions of available-for-sale securities		-	-	(30,000,000)
Net Cash Used in Investing Activities		(69,409,644)	(42,349,972)	(536,198)
Effect of Foreign Currency Exchange Rate Changes in Cash and Cash Equivalents		(172,566)	545,319	(56,190)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		477,650,985	452,962,660	(281,484,572)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		127,556,153	122,574,664	93,698,892
Due from Bangko Sentral ng Pilipinas	7	602,895,583	225,855,077	456,418,925
Due from other banks	8, 25	147,000,648	76,059,983	155,856,479
		877,452,384	424,489,724	705,974,296
CASH AND CASH EQUIVALENTS AT END 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	8, 25	164,994,587	147,000,648	76,059,983
		P 1,355,103,369	P 877,452,384	P 424,489,724

See Notes to Financial Statements.

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012
(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 14, 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 2014, 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 (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, 2014 (including the comparatives as of December 31, 2013 and for the years ended December 31, 2013 and 2012) were authorized for issue by the Bank's Board of Directors (BOD) on April 28, 2015.

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, and approved by the Philippine Board of Accountancy (BOA).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset and liability, and 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. The financial statements of the FCDU of the Bank, which are expressed in United States (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.

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 periods 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 amended standards and interpretation.

(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. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. 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*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied by management 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*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. 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. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. 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 an 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 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 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. Accordingly, it clarifies that the principle of 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 in the statement of comprehensive income 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 in the financial statements, an entity shall consider the understandability and comparability of 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 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. 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 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.

(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, 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,

- a 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 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, do 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.

(v) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but management does not expect those to have material impact on the Bank's financial statements:

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 the 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.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain 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 not 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 in accordance with PAS 40, or a business combination in accordance with 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. 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. 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 and their characteristics.

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 that are relevant to the Bank is as follows:

(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 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 (see Note 2.14). 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 the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable 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 (under Other Resources account) 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 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.

(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 securities 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. When the financial asset is disposed of, or is determined to be impaired (see Note 2.14), the cumulative fair value gains or losses recognized in other comprehensive income are reclassified from equity to profit or loss and are presented as a reclassification adjustment within other comprehensive income.

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. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss (see Note 2.11). Dividends on equity instruments, if any, are recognized in profit or loss when the Bank's right to receive payment of such is established.

The 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. 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:

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.

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 the 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 against current operations 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 Income in the year of retirement or disposal.

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

2.7 Intangible Assets

Intangible assets include acquired branch licenses and computer 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 or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

The acquired branch license is classified as intangible asset with indefinite useful life, and thus, 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.

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.

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; they are subject to the same subsequent measurement method as externally acquired software licenses. 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.

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 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 cost 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.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank, subject to the approval of the BSP.

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.

2.9 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 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.

2.10 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. 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.

2.11 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; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before a 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 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) *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) *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.

(e) *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.

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).

2.12 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. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

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.

2.13 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos, except for the FCDU, which is maintained in 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.

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.

2.14 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 asset as follows:

(a) *Financial assets carried at amortized cost*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually 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 income on loans 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.

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, 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 sale 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 uncollectible, it is written off against the related provision for loan 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 the provision for loan impairment 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.

(b) *Financial assets carried at fair value*

In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from revaluation reserves (part of equity) and recognized in profit or loss. Such reclassification is presented as an adjustment within other comprehensive income. Impairment losses recognized in profit or loss on equity instruments are not reversed through the profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the other comprehensive income.

(c) *Assets carried at cost*

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities, which are carried at cost and for which objective evidence of impairment exists. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

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 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 and Exchange Corporation (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 and 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 [e.g., Social Security System (SSS)]. 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 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 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 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 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 losse 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 or 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.

2.21 Earnings (Losses) Per Share

Basic earnings (losses) 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.

The diluted earnings (losses) per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of any potentially dilutive preferred shares, convertible loan and stock option.

Currently, the Bank's basic and diluted earnings (losses) per share are the same as the Bank does not have dilutive preferred shares, convertible loan and stock option.

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) Classifying Financial Assets as HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. If the Bank fails to keep these investments to maturity (other than for specific circumstances as allowed under the standards, e.g. selling more than an insignificant amount close to maturity), it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(b) 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 impaired as of December 31, 2014 and 2013. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Distinguishing Investment Properties and Owner-occupied Properties

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

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

(d) 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 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.

(e) 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. 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.

(f) 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 outside 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 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, 2014 and 2013, 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 not held for sale in the next twelve months. 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 19.1 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, 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.

Management has assessed that there are no indications of impairment on any of the Bank's non-financial assets at the end of each reporting period; hence, no impairment losses are required to be recognized on those assets in both years.

(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 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 the 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 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 an 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 2.14.

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. The table below shows the credit quality by class of financial assets as of December 31, 2014.

	Neither Past Due nor Specifically Impaired			
	High Grade	Standard Grade	Past Due Individually Impaired	Total
Cash and 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	10,196,622	-	-	10,196,622
	P 3,567,045,305	**P -**	**P 107,147,016**	**P 3,674,192,321**

The credit quality by class of financial assets as of December 31, 2013 follows:

	Neither Past Due nor Specifically Impaired			
	High Grade	Standard Grade	Past Due Individually Impaired	Total
Cash and cash items	P 127,556,153	P -	P -	P 127,556,153
Due from BSP	602,895,583	-	-	602,895,583
Due from other banks	196,418,818	-	-	196,418,818
AFS securities	80,179,914	-	-	80,179,914
Loans and receivables	1,859,123,940	125,305,690	45,252,628	2,029,682,258
Other resources	10,179,352	-	-	10,179,352
	P 2,876,353,760	P 125,305,690	P 45,252,628	P 3,046,912,078

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 up to a maximum coverage of P0.5 million for every depositor per banking institution.

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, 2014 and 2013 pertain to quoted and unquoted government debt 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.

	2014	2013
Against past due and impaired		
Properties	**P 224,259,008**	P 6,693,525
Against neither past due nor impaired		
Hold-out deposits	**1,011,467,692**	709,150,530
Properties	**932,002,439**	966,594,089
Jewelries	**307,512,555**	453,912,700
	P2,475,241,694	P2,136,350,844

4.1.2 Concentration of Credit Risk

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

	December 31, 2014		
	Due from BSP and Other Banks	**Loans and Receivables**	**AFS Securities**
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
	P 1,258,400,926	**P 2,181,191,690**	**P 72,156,323**

	December 31, 2013		
	Due from BSP and Other Banks	Loans and Receivables	AFS Securities
Financial intermediaries	P 799,314,401	P 402,000,428	P -
Consumption	-	679,322,883	-
Other community, social and personal activities	-	624,281,837	-
Real estate, renting and other related activities	-	241,123,332	-
Wholesale and retail trade	-	21,835,506	-
Manufacturing (various industries)	-	7,913,567	-
Agriculture, fishing and forestry	-	3,610,328	-
Others	-	49,594,377	80,179,914
	P 799,314,401	P 2,029,682,258	P 80,179,914

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, 2014 and 2013 in accordance with the account classification of the BSP, are presented below.

	2014				
	Up to three months	**More than three months to one year**	**More than one year to five years**	**More than five years**	**Total**
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	26,934,559	11,276,816	858,822	524,358,923	563,429,120
Total Resources	2,200,283,682	825,128,132	309,641,540	857,065,411	4,192,118,765
Liabilities and Equity:					
Deposit liabilities	3,033,782,975	119,856,044	243,070,739	100,000	3,396,809,758
Other liabilities	88,478,052	90,041	-	15,612,420	104,180,513
Total liabilities	3,122,261,027	119,946,085	243,070,739	15,712,420	3,500,990,271
Equity	-	-	-	691,128,494	691,128,494
Total Liabilities and Equity	3,122,261,027	119,946,085	243,070,739	706,840,914	4,192,118,765
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	**(P 1,119,665,417)**	**(P 497,949,590)**	**(P 459,200,862)**	**(P 307,523,806)**	**P -**

	2013				
	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
Resources:					
Cash and other cash items	P 127,556,153	P -	P -	P -	P 127,556,153
Due from BSP	602,895,583	-	-	-	602,895,583
Due from other banks	147,000,648	49,418,170	-	-	196,418,818
AFS securities	80,179,914	-	-	15,070,000	95,249,914
Loans and receivables	389,910,534	977,455,866	150,058,747	463,584,084	1,981,009,231
Other resources	21,569,483	8,591,172	1,440,416	475,357,302	506,958,373
Total Resources	1,369,112,315	1,035,465,208	151,499,163	954,011,386	3,510,088,072
Liabilities and Equity:					
Deposit liabilities	2,106,497,446	526,400,370	41,599,123	5,100,626	2,679,597,565
Other liabilities	52,188,244	121,094	6,072	17,645,228	69,960,638
Total liabilities	2,158,685,690	526,521,464	41,605,195	22,745,854	2,749,558,203
Equity	-	-	-	760,529,869	760,529,869
Total Liabilities and Equity	2,158,685,690	526,521,464	41,605,195	783,275,723	3,510,088,072
On-book gap	(789,573,375)	508,943,744	109,893,968	170,735,663	-
Cumulative on-book gap	(789,573,375)	(280,629,631)	(170,735,663)	-	-
Contingent assets	20,853	-	-	1,434,382	1,455,235
Contingent liabilities	(138,698,206)	(58,451,071)	(19,483,690)	-	(216,632,967)
Off-book gap	(138,677,353)	(58,451,071)	(19,483,690)	1,434,382	(215,177,732)
Cumulative off-book gap	(138,677,353)	(197,128,424)	(216,612,114)	(215,177,732)	-
Cumulative total gap	(P 928,250,728)	(P 477,758,055)	(P 387,347,777)	(P 215,177,732)	P -

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, stated at their settlement amounts as of December 31, 2014 and 2013, are presented below.

	2014				
	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
Deposit liabilities	P 3,033,782,975	P 119,856,044	P 243,070,739	P 100,000	P 3,396,809,758
Other liabilities	88,478,052	90,041	-	-	88,568,093
	P 3,122,261,027	**P 119,946,085**	**P 243,070,739**	**P 100,000**	**P 3,485,377,851**

	2013				
	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
Deposit liabilities	P 2,106,497,446	P 526,400,370	P 41,599,123	P 5,100,626	P 2,679,597,565
Other liabilities	52,188,244	121,094	6,072	-	52,315,410
	P 2,158,685,690	P 526,521,464	P 41,605,195	P 5,100,626	P 2,731,912,975

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, 2014 and 2013 translated to closing rates consist of the following:

	2014		2013	
	US Dollar	**Peso**	US Dollar	Peso
Due from other banks	**$ 2,089,006**	**P 93,462,124**	$ 1,996,855	P 88,656,352
Other resources	**17,369**	**777,082**	17,516	777,956
Deposit liabilities	**(1,992,329)**	**(89,136,810)**	(1,899,904)	(84,351,917)
Other liabilities	**(3,627)**	**(162,277)**	(3,025)	(134,352)
Short-term exposure	**$ 110,419**	**P 4,940,119**	$ 111,442	P 4,948,039

The sensitivity of the net profit before tax and equity in regards to the Bank's financial assets and liabilities and the US dollar - Philippine peso exchange rate assumes a +/- 27.84% change and +/- 23.82%% change in the Philippine peso/US dollar exchange rate for the years ended December 31, 2014 and 2013, 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 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.

	2014		
	+/- %	**Loss Before Tax**	**Equity**
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**

	2013		
	+/- %	Profit Before Tax	Equity
Due from other banks	1.21%	P 2,376,668	P 1,663,667
AFS securities – bonds	1.78%	1,427,202	999,042
Loans and receivables	0.35%	5,061,480	3,543,036
		P 8,865,350	P 6,205,745

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:

		2014		2013	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items		**P 152,246,760**	**P 152,246,760**	P 127,556,153	P 127,556,153
Due from BSP	7	**1,037,862,022**	**1,037,862,022**	602,895,583	602,895,583
Due from other banks	8	**220,538,904**	**220,538,904**	196,418,818	196,418,818
Loans and receivables	10	**2,130,815,636**	**2,130,815,636**	1,981,009,231	1,981,009,231
Other resources	13	**10,196,622**	**10,196,622**	10,179,352	10,179,352
AFS securities	9	**46,026,323**	**46,026,323**	49,249,914	49,249,914
		P 3,597,686,267	**P 3,597,686,267**	P 2,967,309,051	P 2,967,309,051
Financial Liabilities					
At amortized cost:					
Deposit liabilities	14	**P 3,396,809,758**	**P 3,396,809,758**	P 2,679,597,565	P 2,679,597,565
Other liabilities	15	**88,568,093**	**88,568,093**	52,315,410	52,315,410
		P 3,485,377,851	**P 3,485,377,851**	P 2,731,912,975	P 2,731,912,975

The amounts of AFS securities for 2014 and 2013 are net of P41.2 million and P46.0 million debt security, respectively, which is carried at cost as their fair value cannot be determined (see Note 9).

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.

See Notes 2.3 and 2.8 for the description of the accounting policies for each category of financial instruments and Note 6.2 for the information related to the determination of fair values of the Bank's AFS securities carried at fair value. Moreover, 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:

	December 31, 2014			
	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Loans and receivables –				
Receivables from customers				
December 31, 2014	**P 1,985,161,677**	**(P 1,011,467,692)**	**P -**	**P 973,693,985**
December 31, 2013	P 1,908,147,195	(P 709,150,530)	P -	P 1,198,996,665

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

	December 31, 2014			
	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Deposit liabilities –				
December 31, 2014	**P 3,396,809,758**	**(P 1,011,467,692)**	**P -**	**P 2,385,342,066**
December 31, 2013	P 2,679,597,565	(P 709,150,530)	P -	P 1,970,447,035

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 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.

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.

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, 2014 and 2013.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS securities:				
Debt securities	P 20,874,413	P 10,081,910	P -	P 30,956,323
Proprietary shares	-	15,070,000	-	15,070,000
	P 20,874,413	**P 25,151,910**	**P -**	**P 46,026,323**

	2013			
	Level 1	Level 2	Level 3	Total
AFS securities:				
Debt securities	P 23,557,188	P 10,622,726	P -	P 34,179,914
Proprietary shares	-	15,070,000	-	15,070,000
	P 23,557,188	P 25,692,726	P -	P 49,249,914

The Bank has no financial liabilities measured at fair value as of December 31, 2014 and 2013.

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) 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, 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 (i.e., 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 Fair Value Disclosures for Investment Properties

The total estimated fair values of the Bank's investment properties amounted to P37.6 million and P44.1 million as of December 31, 2014 and 2013, respectively. The fair value hierarchy of those properties categorized as Level 3, are shown below.

	2014	2013
Land	**P 26,668,407**	P 26,763,761
Buildings	**10,929,202**	17,390,367
	P 37,597,609	P 44,154,128

The fair value disclosed for the Bank's investment properties as of December 31, 2014 and 2013 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 technique during the year.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

As of December 31, 2014 and 2013, the Bank has deposits considered as mandatory reserves with the BSP totaling P1,037.9 million and P602.9 million, respectively.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements on deposit liabilities for thrift banks. Due from BSP bears annual interest at rates of 2.00% to 2.50% in 2014, 2.00% to 3.00% in 2013 and 3.66% to 4.69% in 2012. Total interest earned from these deposits amounted to P13.4 million, P6.7 million and P11.9 million in 2014, 2013 and 2012, respectively, and are shown as part of 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:

	2014	2013
Time deposits	**P 114,806,433**	P 136,026,861
Savings deposits	**105,732,471**	60,391,957
	P 220,538,904	P 196,418,818

Savings accounts represent clearing and other depository accounts with other banks which bear annual interest at rates of 0.25% to 0.88% in 2014, 2013 and 2012.

Time deposits include special savings deposits which bear annual interest of 1.00% to 1.80% in 2014, 1.00% to 2.20% in 2013 and 0.50% to 2.25% % in 2012 and have average maturities of one month.

Interest income earned from these savings and time deposits amounted to P2.0 million, P1.9 million and P1.8 million in 2014, 2013 and 2012, respectively, and are shown as part of Interest Income on Due from BSP and Other Banks account in the statements of profit or loss.

The breakdown of this account by currency is as follows:

	2014	2013
Peso	**P 127,076,780**	P 107,762,466
US dollar	**93,462,124**	88,656,352
	P 220,538,904	P 196,418,818

For statements of cash flows purposes, deposits amounting to P55.5 million and P49.4 million as of December 31, 2014 and 2013, respectively, are not included 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.

	2014	2013
Government debt securities:		
Unquoted	**P 41,200,000**	P 46,000,000
Quoted	**30,956,323**	34,179,914
Quoted proprietary club shares	**15,070,000**	15,070,000
	P 87,226,323	P 95,249,914

Quoted government debt securities include debt securities issued by the Republic of the Philippines, which earn annual interest of 5.0% to 6.4% in 2014, 2013 and 2012. These securities will mature in various dates within 2015 to 2037.

Unquoted debt security amounting to P41.2 million and P46.0 million as of December 31, 2014 and 2013, respectively, is issued by the local government of Infanta, Quezon and earns annual interest of 4.9% in 2014, 4.4% in 2013 and 5.6% in 2012. 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.

The reconciliation of the carrying amounts of AFS securities follows:

	2014	2013
Balance at beginning of year	**P 95,249,914**	P 102,025,957
Maturity	**(6,650,000)**	(4,000,000)
Amortization	**(257,614)**	(159,993)
Fair value losses – gross of tax	**(1,115,977)**	(2,616,050)
Balance at end of year	**P 87,226,323**	P 95,249,914

Unrealized fair value losses on AFS securities amounting to P1.1 million and P2.6 million in 2014 and 2013, respectively, and unrealized gains amounting to P8.8 million in 2012, were reported in Other Comprehensive Income, gross of tax, and formed part of the Revaluation Reserves account in the statements of changes in equity.

Trading gains recognized on AFS securities disposed of in 2012 amounted to P2.0 million and are presented as part of Other Operating Income account in the 2012 statement of profit or loss. Consequently, fair value gains amounting to P1.8 million related to the investments disposed of were transferred and recycled to profit or loss.

Interest income earned by the Bank from AFS securities amounted to P4.8 million, P3.4 million and P5.2 million in 2014, 2013 and 2012, respectively.

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

Certain government securities amounting to P3.0 million as of December 31, 2014 and 2013 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:

	Note	2014	2013
Receivables from customers		**P 1,985,161,677**	P 1,908,147,195
Sales contract receivables	12	**138,224,486**	71,940,686
Long-term negotiable certificate of deposit		**20,000,000**	-
Other receivables		**37,805,527**	49,594,377
		2,181,191,690	2,029,682,258
Unearned interests, discounts and other charges		**(9,125,984)**	(19,919,205)
Allowance for impairment		**(41,250,070)**	(28,753,822)
		P 2,130,815,636	P 1,981,009,231

Included in receivables from customers are non-accruing loans amounting to P21.1 million and P35.6 million as of December 31, 2014 and 2013, respectively.

Receivables from customers are composed of the following:

	2014	2013
Time loans	**P 1,164,746,270**	P 1,427,869,310
Bills discounted	**709,327,890**	403,918,167
Past due loans	**84,956,719**	20,348,127
Items in litigation	**21,656,218**	22,354,349
Restructured loans	**3,492,693**	5,089,615
Bills purchased	**981,887**	28,567,627
	P 1,985,161,677	P 1,908,147,195

Receivables from customers bear annual interest rates of 1.25% to 55.0% both in 2014 and 2013 and 3.65% to 55.0% in 2012. On the other hand, sales contract receivables bear annual interest rates of 6.0% to 18.16% in 2014 and 8.13% to 18.16% both in 2013 and 2012.

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

	2014	2013
Within one year	**P1,504,396,430**	P1,336,006,670
Beyond one year:		
Within five years	**308,782,718**	229,936,708
Beyond five years	**171,982,529**	342,203,817
	P1,985,161,677	P1,908,147,195

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

	2014	2013
Variable interest rates	**P1,838,022,187**	P1,446,137,053
Fixed interest rates	**147,139,490**	462,010,142
	P1,985,161,677	P 1,908,147,195

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

	2014	2013
Secured:		
Hold-out deposit	**P1,011,467,692**	P 709,150,530
Real estate mortgage	**475,791,612**	486,465,502
Chattel mortgage	**154,568,706**	216,932,934
Others	**307,512,555**	459,412,700
	1,949,340,565	1,871,961,666
Unsecured	**35,821,112**	36,185,529
	P1,985,161,677	P1,908,147,195

Sales contract receivables represent the outstanding balance related to the sale of investment properties. The term of payment ranges from two to 22 years in 2014 and one to 23 years in 2013. Interest rate on these receivables ranges from 6.0% to 18.0% per annum both in 2014 and 2013, and 8.0% to 18.0% per annum in 2012. Sales contract receivable as of December 31, 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 pertain to a deposit to a local bank which bear an annual interest rate of 4.25% and will mature in 2021.

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

	2014	2013
Balance at beginning of year	**P 28,753,822**	P 29,802,617
Impairment loss	**15,633,101**	-
Impairment reversal	**(2,063,147)**	(1,048,795)
Write-off	**(1,073,706)**	-
Balance at end of year	**P 41,250,070**	P 28,753,822

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

	2014	2013
Receivables from customers	**P 35,330,430**	P 26,634,182
Sales contract receivables	**501,115**	501,115
Other receivables	**5,418,525**	1,618,525
	P 41,250,070	P 28,753,822

In 2013, the Bank recognized an impairment loss of P1.3 million on certain other receivables written-off during that year. Such impairment loss, net of P1.1 million recoveries on other loan accounts, is presented in the 2013 statement of profit or loss.

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 2014 and 2013 are shown below.

	Land	Bank Premises	Office Furniture, Fixtures and Equipment	Leasehold Improve-ments	Total
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	-	(43,007,976)	(98,957,090)	(11,930,987)	(153,896,053)
Net carrying amount	**P 71,375,102**	**P 103,633,264**	**P 39,361,124**	**P 10,778,267**	**P 225,147,757**
December 31, 2013					
Cost	P 99,656,485	P 124,396,533	P 121,385,196	P 20,066,421	P 365,504,635
Accumulated depreciation and amortization	-	(36,920,585)	(93,882,632)	(11,563,763)	(142,366,980)
Net carrying amount	P 99,656,485	P 87,475,948	P 27,502,564	P 8,502,658	P 223,137,655
January 1, 2013					
Cost	P 85,003,485	P 120,298,796	P 99,911,979	P 15,958,288	P 321,172,548
Accumulated depreciation and amortization	-	(32,527,964)	(88,436,567)	(11,176,421)	(132,140,952)
Net carrying amount	P 85,003,485	P 87,770,832	P 11,475,412	P 4,781,867	P 189,031,596

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2014 and 2013, is shown below.

	Land	Bank Premises	Office Furniture, Fixtures and Equipment	Leasehold Improve-ments	Total
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	**P 71,375,102**	**P 103,633,264**	**P 39,361,124**	**P 10,778,267**	**P 225,147,757**
Balance at January 1, 2013, net of accumulated depreciation and amortization	P 85,003,485	P 87,770,832	P 11,475,412	P 4,781,867	P 189,031,596
Additions	14,653,000	4,097,737	22,500,265	5,098,970	46,349,972
Disposals	-	-	(60,263)	(3,000)	(63,263)
Reclassification	-	-	(49,001)	49,001	-
Depreciation and amortization charges for the year	-	(4,392,621)	(6,363,849)	(1,424,180)	(12,180,650)
Balance at December 31, 2013, 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

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 debit 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 Loans and Receivables account in the 2014 statement of financial position (see Note 10). The related gain on sale amounting to P25.5 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 P17.9 million in 2014, P12.2 million in 2013 and P11.8 million in 2012 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

As of December 31, 2014 and 2013, the gross carrying amount of the Bank's fully-depreciated assets that are still in use in operations is P78.0 and P80.8 million, respectively.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 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 2014 and 2013 are shown below.

	Land	Buildings	Total
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	**P 16,882,965**	**P 5,598,292**	**P 22,481,257**
December 31, 2013			
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	P 16,882,965	P 9,659,560	P 26,542,525
January 1, 2013			
Cost	P 18,877,674	P 21,607,723	P 40,485,397
Accumulated depreciation	-	(4,969,614)	(4,969,614)
Allowance for impairment	(550,089)	-	(550,089)
Net carrying amount	P 18,327,585	P 16,638,109	P 34,965,694

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2014 and 2013 is shown below.

	Land	Buildings	Total
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	**P 16,882,965**	**P 5,598,292**	**P 22,481,257**
Balance at January 1, 2013, net of accumulated depreciation and impairment	P 18,327,585	P 16,638,109	P 34,965,694
Additions	10,036,256	3,964,357	14,000,613
Disposals	(11,480,876)	(8,343,365)	(19,824,241)
Depreciation charges for the year	-	(2,599,541)	(2,599,541)
Balance at December 31, 2013, net of accumulated depreciation and impairment	P 16,882,965	P 9,659,560	P 26,542,525

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P4.1 million, P3.4 million and P2.4 million in 2014, 2013 and 2012, respectively, and is presented as Rental income under 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 P2.7 million, P2.13 million and P3.05 million for the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013 amounted to P37.6 million and P44.1 million, respectively, as determined by the Bank's in-house and independent appraisers (see Note 6.3).

As of December 31, 2014 and 2013, 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:

	Notes	**2014**	2013
Non-financial assets – net		**P 186,368,133**	P 148,341,166
Computer software – net		**47,824,516**	20,583,839
Branch licenses		**32,500,000**	32,500,000
Sundry debits		**12,565,359**	17,491,194
Security deposits	21.4	**6,917,657**	6,955,127
Stationery and supplies on hand		**6,887,952**	6,416,151
Prepaid expenses		**6,575,566**	6,308,581
Deferred tax assets – net	19.1	**5,285,594**	5,683,937
Advance rental		**2,681,493**	2,270,959
Deposit with Philippine Clearing House Corp. (PCHC)		**2,500,000**	2,500,000
Documentary stamps		**566,210**	524,732
Bancnet		**500,000**	500,000
Utility deposit		**445,632**	410,892
Other investments		**153,333**	153,333
Returned checks		**-**	3,197,453
Miscellaneous		**4,028,661**	3,440,829
		P 315,800,106	P 257,278,193

13.1 Non-financial Assets

Non-financial assets include vehicles and jewelry items foreclosed from borrowers. Depreciation expense recognized for the foreclosed vehicles amounting to P0.5 million in 2014, P2.2 million in 2013 and P1.1 million in 2012 are included as part of Depreciation and Amortization account in the statements of profit or loss. In 2014, the Bank recognized impairment loss for the 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.

The breakdown of this account is as follows:

	2014	2013
Jewelry items	**P 197,892,703**	P 146,625,005
Motor vehicles	**1,977,966**	1,716,161
	199,870,669	148,341,166
Allowance for impairment	**(13,502,536)**	-
	P 186,368,133	P 148,341,166

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

	2014	2013
Balance at beginning of year	**P 146,625,005**	P 6,600,399
Foreclosures	**95,946,550**	228,811,134
Disposals	**(44,678,852)**	(88,786,528)
Balance at end of year	**P 197,892,703**	P 146,625,005

13.2 Branch License

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.

13.3 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 capitalized for this acquisition amounted to P28.2 million and P19.8 million in 2014 and 2013, respectively. Amortization of computer software amounted to P0.7 million in 2014, P0.6 million in 2013 and P1.0 million in 2012 and are included as part of Other Expenses in the statements of profit or loss (see Note 17.2).

13.4 Sundry Debits

Sundry debits and sundry credits (see Note 15) 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.

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, prepaid rental expenses, etc.

14. DEPOSIT LIABILITIES

Savings deposits have interest rate of 0.25% per annum in 2014, 2013 and 2012. Peso term deposit interest rates range between 0.31% to 3.25% per annum both in 2014 and 2013, and 1.25% to 2.75% per annum in 2012, while US dollar term deposit interest rates range between 0.13% to 1.25% per annum both in 2014 and 2013, and 0.50% to 0.90% per annum in 2012.

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

	2014	2013
Philippine Peso	**P3,307,672,948**	P2,595,245,648
US Dollars	**89,136,810**	84,351,917
	P3,396,809,758	P2,679,597,565

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

	2014	2013
Within one year	**P3,153,639,019**	P2,632,897,816
Beyond one year:		
Within five years	**243,070,739**	41,599,123
Beyond five years	**100,000**	5,100,626
	P3,396,809,758	P2,679,597,565

15. OTHER LIABILITIES

This account consists of the following:

	Notes	2014	2013
Accounts payable		**P 54,727,117**	P 28,511,108
Accrued expenses		**13,218,609**	17,094,618
Post-employment benefit obligation	18.2	**12,418,975**	14,111,947
Cashier's and manager's checks		**11,658,890**	4,271,939
Sundry credits	13	**7,239,146**	209,342
Income tax payable		**3,193,445**	3,533,281
Security deposits		**1,065,847**	1,280,059
Bills purchased clearing		**518,000**	878,425
Miscellaneous		**140,484**	69,919
		P 104,180,513	P 69,960,638

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, advanced 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.

15.2 Accrued Expenses

Accrued expenses are mainly composed of gross receipts taxes, insurance premium accrual for 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, 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, 2014 and 2013, 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, 2014, there are 55 holders of the Bank's total outstanding shares. Such listed shares closed at P14.0 per share as of December 31, 2014.

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.

	AFS Securities	Defined Benefit Plan	Total
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	(1,115,977)	-	(1,115,977)
Other comprehensive loss before tax	(1,115,977)	3,940,141	2,824,164
Tax income	-	(1,182,042)	(1,182,042)
Other comprehensive loss after tax	(1,115,977)	2,758,099	1,642,122
Balance as of December 31, 2014	**P 8,063,840**	**(P 3,776,605)**	**P 4,287,235**
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	(2,616,050)	-	(2,616,050)
Other comprehensive loss before tax	(2,616,050)	(3,470,458)	(6,086,508)
Tax income	397,944	1,041,137	1,439,081
Other comprehensive loss after tax	(2,218,106)	(2,429,321)	(4,647,427)
Balance as of December 31, 2013	P 9,179,817	(P 6,534,704)	P 2,645,113
Balance as of January 1, 2012	P 5,023,029	(P 1,992,570)	P 3,030,459
Remeasurements of defined benefit post-employment plan	-	(3,018,304)	(3,018,304)
Fair value gains on AFS securities	8,805,967	-	8,805,967
Transfer of realized fair value gains on AFS securities to profit or loss	(1,759,560)	-	(1,759,560)
Other comprehensive income (loss) before tax	7,046,407	(3,018,304)	4,028,103
Tax income (expense)	(671,513)	905,491	233,978
Other comprehensive income (loss) after tax	6,374,894	(2,112,813)	4,262,081
Balance as of December 31, 2012	P 11,397,923	(P 4,105,383)	P 7,292,540

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:

	2014	2013	2012
Tier 1 Capital	**P 644,245,403**	P 706,522,924	P 696,798,101
Tier 2 Capital	**8,595,234**	11,461,003	10,420,949
Total Qualifying Capital	**P 652,840,637**	P 717,983,927	P 707,219,050
Total Risk Weighted Assets	**P 2,236,246,452**	P 2,271,577,145	P 1,724,236,787
Capital Adequacy Ratio (CAR)	**29.19%**	31.61%	41.02%

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 P1.00 billion for head office in Metro Manila. The Bank is contemplating for the feasible capital build-up program that will implement within the five year period required by the BSP to meet this new minimum capital requirements.

17. MISCELLANEOUS INCOME AND OTHER OPERATING EXPENSES

Presented below are the details of these accounts:

17.1 *Miscellaneous Income*

	Notes	**2014**	2013	2012
Gain on sale of bank premises	11	**P 25,563,500**	P -	P -
Interbank automated teller machine (ATM) transactions		**4,621,429**	5,620,752	5,411,462
Rental income	12, 24.2	**4,083,569**	3,395,134	2,366,519
Penalty on loans		**3,814,092**	2,644,428	2,072,836
Gains from assets acquired/ exchanged		**2,975,246**	33,537,450	P 20,258,791
Income from trust department	20	**1,455,861**	1,602,168	1,445,630
Income from re-ordered and pre-encoded checks		**818,776**	979,577	666,841
Income from loans		**319,510**	1,004,788	786,733
Legal and appraisal fees		**201,887**	993,038	2,305,004
Fair value gain on security deposits		**69,396**	60,222	53,440
Gain on reversal of liabilities		**-**	629,300	-
Foreign exchange gains – net		**-**	545,319	-
Others		**808,392**	373,028	1,273,686
		P 46,794,805	P 51,385,204	P 36,640,942

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 Other Expenses

	Notes	2014	2013	2012
Office supplies		**P 4,095,610**	P 3,751,588	P 3,133,055
Transportation and travel		**2,769,161**	1,436,678	1,427,092
Management and professional fees		**2,663,238**	2,429,827	2,214,065
Representation and entertainment		**2,554,146**	2,893,410	1,990,447
Meals and other incentives		**1,083,741**	1,847,509	1,360,021
Banking fees		**910,774**	808,538	837,250
PCHC charges		**795,671**	918,533	963,427
Amortization of computer software and deferred charges	13	**724,102**	617,304	1,008,982
Interest expense on post-employment defined benefit obligation	18.2	**653,384**	505,970	297,597
Advertising and publicity		**602,621**	981,003	3,429,356
Annual fees for PSE, SEC and Bancnet		**461,685**	467,103	453,967
Association dues		**450,309**	861,404	699,641
Christmas party expenses		**182,888**	101,008	774,823
Foreign exchange losses – net		**172,566**	-	56,190
Rental fee on motor vehicles		**112,134**	106,200	132,246
Miscellaneous		**8,540,897**	6,082,786	5,558,660
		P 26,772,927	P 23,808,861	P 24,336,819

18. EMPLOYEE BENEFITS

18.1 Salaries and Employee Benefit Expense

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

	2014	2013	2012
Short-term employee benefits	**P103,055,283**	P 97,400,196	P 85,847,677
Post-employment – defined benefit	**3,778,676**	2,811,373	1,955,782
	P106,833,959	P100,211,569	P 87,803,459

18.2 Defined Benefit Post-employment 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 150% 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 2014 and 2013.

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

	2014	2013
Present value of the obligation	**P 24,105,479**	P 23,266,881
Fair value of plan assets	**(11,686,504)**	(9,154,934)
	P 12,418,975	P 14,111,947

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

	2014	2013
Balance at beginning of year	**P 23,266,881**	P 17,461,500
Current service cost	**3,778,676**	2,811,373
Interest expense	**1,077,257**	991,813
Remeasurements – actuarial losses (gains) arising from:		
- changes in financial assumptions	**(823,270)**	3,249,018
- experience adjustments	**(3,194,065)**	(676,506)
Benefits paid	**-**	(570,317)
Balance at end of year	**P 24,105,479**	P 23,266,881

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

	2014	2013
Balance at beginning of year	**P 9,154,934**	P 8,533,576
Interest income	**423,873**	485,843
Return on plan assets (excluding amounts included in net interest)	**(77,194)**	(897,946)
Contributions to the plan	**2,184,891**	1,583,778
Benefits paid	**-**	(570,317)
Balance at end of year	**P 11,686,504**	P 9,154,934

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

	2014	2013
Cash and cash equivalents	**P 7,580,895**	P 6,061,843
Quoted equity securities:		
Holding firms	**1,270,520**	860,495
Financial institutions	**-**	482,596
	1,270,520	1,343,091
Debt securities –		
Corporate bonds	**2,835,089**	1,750,000
	P 11,686,504	P 9,154,934

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 P0.3 million in 2014 and 2012 and incurred a negative return of P0.4 million in 2013.

Plan assets of the post-employment plan include cash deposits of P1.3 million and P1.4 million in the Bank as of December 31, 2014 and 2013, 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:

	2014	2013	2012
Reported in profit or loss:			
Current service cost	**P 3,778,676**	P 2,811,373	P 1,955,783
Net interest expense	**653,384**	505,970	297,597
	P 4,432,060	P 3,317,343	P 2,253,380
Reported in other comprehensive income:			
Actuarial losses (gains) arising from changes in:			
Financial assumptions	**(P 823,270)**	P 3,249,018	P 1,027,011
Experience adjustments	**(3,194,065)**	(676,506)	1,772,784
Return on plan assets (excluding amounts included in net interest expense)	**77,194**	897,946	218,509
	(P 3,940,141)	P 3,470,458	P 3,018,304

Current service cost is presented in the statements of profit or loss as part of Employee benefits under 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:

	2014	2013
Discount rates	**4.9%**	4.6%
Expected rate of salary increases	**3.0%**	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 65 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 zero coupon government bonds 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 2014, the plan investments are 65% placed in cash and cash equivalents with the remaining assets invested in equity securities and corporate debt 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, 2014 and 2013 are as follows:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
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)**
December 31, 2013			
Discount rate	+/- 1.0%	(P 3,108,803)	P 3,790,686
Salary growth rate	+/- 2.0%	8,097,467	(5,657,900)

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, 2014 and 2013 are invested in cash and cash equivalents. 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 equity securities offer the best returns over the long term with an acceptable level of risk. 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 P12.4 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 10 years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P5.2 million to the plan during the next reporting period.

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

	2014	2013
Within one year	**P 1,885,013**	P 350,879
More than one year to five years	**6,100,243**	4,317,935
More than five years to ten years	**15,408,757**	10,293,737
More than ten years to 15 years	**22,888,316**	37,821,295
More than 15 years to 20 years	**50,304,502**	51,522,596
More than 20 years	**289,758,424**	269,397,335
	P 386,345,255	P 373,703,777

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 relating to profit or loss and other comprehensive income for the years ended December 31 are as follows:

	2014	2013	2012
Reported in profit or loss:			
Current tax expense:			
Minimum corporate income tax (MCIT) at 2% – RBU	**P 3,354,623**	P 3,524,003	P 3,479,921
Income tax - FCDU	**13,537**	18,723	13,338
Final tax at 20% and 7.5%	**3,484,805**	2,307,967	5,704,207
	6,852,965	5,850,693	9,197,466
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(783,699)**	11,316,041	2,134,582
	P 6,069,266	P 17,166,734	P 11,332,048
Reported in other comprehensive income:			
Deferred tax expense (income) relating to:			
Remeasurement of defined benefit post-employment plan	**P 1,182,042**	(P 1,041,137)	(P 905,491)
Fair valuation of AFS securities	**-**	(397,944)	671,513
	P 1,182,042	(P 1,439,081)	(P 233,978)

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:

	2014	2013	2012
Tax on pretax profit (loss) at 30%	**(P 19,492,269)**	P 5,248,702	P 3,909,230
Adjustments for income subjected to lower income tax rates	**(1,742,402)**	(1,153,984)	(2,832,614)
Tax effects of:			
Unrecognized deferred tax assets	**21,943,387**	7,828,451	3,500,126
Expired net operating loss carryover (NOLCO)	**2,973,314**	23,618	464,821
Non-deductible interests and other expenses	**2,497,685**	3,309,178	4,034,670
Tax exempt income	**(110,449)**	(320,215)	(128,668)
Expired MCIT	**-**	2,549,050	2,401,370
Nontaxable income	**-**	(18,066)	(16,887)
Tax expense	**P 6,069,266**	P 17,166,734	P 11,332,048

The net deferred tax assets presented under Other Resources account as of December 31, 2014 and 2013 relate to the following (see Note 13):

	2014	2013
Deferred tax assets:		
Allowance for impairment	**P 8,626,146**	P 8,626,146
Defined benefit post-employment obligation	**3,725,694**	4,233,585
Unamortized past-service cost	**334,070**	428,550
Unrealized foreign exchange loss	**51,770**	-
NOLCO	**-**	2,973,314
	12,737,680	16,261,595
Deferred tax liabilities:		
Profit on assets sold under installment method	**(5,805,351)**	(8,892,874)
Accrued rent under PAS 17	**(842,735)**	(717,188)
Fair value gains on AFS securities	**(804,000)**	(804,000)
Unrealized foreign exchange gains	**-**	(163,596)
	(7,452,086)	(10,577,658)
Net deferred tax assets	**P 5,285,594**	P 5,683,937

Deferred tax expense (income) charged to profit or loss and other comprehensive income for the years ended December 31 are as follows.

	Profit or Loss			**Other Comprehensive Income**		
	2014	2013	2012	**2014**	2013	2012
Profit on assets sold under installment method	**(P 3,087,523)**	P 8,523,403	(P 42,989)	**P -**	P -	P -
NOLCO	**2,973,314**	23,618	2,209,259	**-**	-	-
Defined benefit post-employment obligation	**(674,151)**	(520,070)	(303,296)	**1,182,042**	(1,041,137)	(905,491)
Unrealized foreign exchange gains (loss)	**(215,366)**	163,596	(178,258)	**-**	-	-
Accrued rent under PAS 17	**125,547**	150,468	(45,434)	**-**	-	-
Past-service cost amortization	**94,480**	94,480	94,480	**-**	-	-
MCIT	**-**	2,549,050	2,401,370	**-**	-	-
Allowance for impairment	**-**	314,639	(1,983,693)	**-**	-	-
Unrealized foreign exchange losses	**-**	16,857	(16,857)	**-**	-	-
Fair value gains on AFS securities	**-**	-	-	**-**	(397,944)	671,513
Net Deferred tax expense (income)	**(P 783,699)**	P 11,316,041	P 2,134,582	**P 1,182,042**	(P 1,439,081)	(P 233,978)

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, 2014, 2013 and 2012, the Bank is liable for MCIT of P3.4 million, and P3.5 million both for 2013 and 2012 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, 2014 and 2013 as follows:

	2014		2013	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
NOLCO	**P 50,204,388**	**P 15,061,316**	P 24,196,800	P 7,259,040
Allowance for impairment	**29,135,637**	**8,740,691**	228,149	68,445
MCIT	**10,358,547**	**10,358,547**	9,455,273	9,455,273
	P 89,698,572	**P 34,160,554**	P 33,880,222	P 16,782,758

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
2014	P 3,354,623	P -	P 3,354,623	2017
2013	3,524,003	-	3,524,003	2016
2012	3,479,921	-	3,479,921	2015
2011	2,451,349	(2,451,349)	-	2014
	P 12,809,896	**(P 2,451,349)**	**P 10,358,547**	

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
2014	P 35,918,638	P -	P 35,918,638	2017
2013	14,285,750	-	14,285,750	2016
2011	19,822,097	(19,822,097)	-	2014
	P 70,026,485	**(P 19,822,097)**	**P 50,204,388**	

The Bank claimed itemized deductions in all years presented.

20. TRUST OPERATIONS

Investments amounting to P223.3 million and P216.5 million held by the Bank as of December 31, 2014 and 2013, 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 P3.0 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, 2014, 2013 and 2012, the reserve for trust operations amounted to P0.8 million, P0.7 million and P0.5 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 P1.4 million, P1.6 million and P1.4 million for the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013 are as follows (in thousands):

Related Party Category	Notes	2014 Amount of Transaction	2014 Outstanding Balance	2013 Amount of Transaction	2013 Outstanding Balance
Stockholders					
Loans and receivables	21.1	**P -**	**P -**	P 7,742	P 7,742
Interest income	21.1	**-**	**-**	910	-
Deposit liabilities	21.2	**294,446**	**298,701**	518,920	11,938
Interest expense	21.2	**-**	**-**	979	1
Related Parties Under Common Ownership					
Loans and receivables	21.1	**351,382**	**347,816**	362,413	323,613
Interest income	21.1	**32**	**-**	33	1
Deposit liabilities	21.2	**100,872**	**613,080**	1,306,275	867,668
Interest expense	21.2	**20**	**4**	253	236
Rent income	21.4	**-**	**-**	2,451	-
Rent expense	21.4	**2,858**	**137**	2,036	1,425
Sale of bank premise	21.5	**81,679**	**81,679**	-	-
Officers and Employees					
Loans and receivables	21.1	**5,834**	**3,927**	10,389	7,695
Interest income	21.1	**173**	**-**	309	-
Deposit liabilities	21.2	**804**	**1,120**	16,350	12,218
Interest expense	21.2	**1**	**-**	-	1
Retirement fund	21.3	**2,532**	**11,687**	601	9,155
Key Management Personnel					
Compensation	21.6	**13,154**	**-**	11,913	-

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:

	2014	2013	2012
Total outstanding DOSRI loans	**P 351,743,333**	P 339,050,420	P 435,869,172
% to total loan portfolio	**17.51%**	18.06%	26.28%
% of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%	11.87%
% of past due DOSRI loans to total DOSRI loans	**2.39%**	0.00%	0.00%
% of non-performing DOSRI loans to total DOSRI loans	**2.39%**	0.00%	0.00%

DOSRI loans bear annual interest rates of 4.5% to 12.5% in 2014, 6.7% to 12.5% in 2013 and 6.0% to 13.4% in 2012. These loans are secured through hold-out deposit and are payable within one month to six months.

Total loan releases and collections in 2014 amounted to P357 million and P66 million, respectively. Total loan releases and collections in 2013, on the other hand, amounted to P219.7 million and P144.0 million, respectively.

21.2 Deposit Liabilities to Related Parties/DOSRI

As of December 31, 2014 and 2013, deposit liabilities to related parties amount to P912.9 million and P891.8 million, respectively, of which, P533.4 million and P527.8 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 P1.1 million and P1.2 million in 2014 and 2013, 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, 2014 and 2013 are shown below (see Note 18.2).

	2014	2013
Cash and cash equivalents	**P 7,580,895**	P 6,061,843
Equity securities	**1,270,520**	1,343,091
Fixed income debt securities	**2,835,089**	1,750,000
	P 11,686,504	P 9,154,934

Total deposits of the retirement fund to the Bank amounted to P1.3 million and P1.4 million as of December 31, 2014 and 2013, respectively. The related interest expense recognized by the Bank from these deposits amounted to P0.01 million in 2014 and 2013, respectively.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P1.2 million and P0.9 million investments in the shares of stock of the Bank as of December 31, 2014 and 2013, 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 2014 and 2013 amounted to P2.2 million and P1.6 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 P6.9 million and P7.0 million as of December 31, 2014 and 2013, 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 Loans and Receivable 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:

	2014	2013	2012
Short-term employee benefits	**P 12,914,174**	P 11,695,364	P 10,972,165
Post-employment benefits	**240,203**	217,580	1,215,444
	P 13,154,377	P 11,912,944	P 12,187,609

22. EARNINGS (LOSSES) PER SHARE

Earnings (losses) per share is computed as follows:

	2014	2013	2012
Net profit (loss)	**(P 71,043,497)**	P 328,940	P 1,698,717
Divided by the weighted average number of outstanding common shares	**72,764,998**	72,764,998	72,764,998
Earnings (loss) per share	**(P 0.98)**	P 0.00	P 0.02

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:

	2014	2013	2012
Return on average equity	**-9.79%**	0.04%	0.22%
Return on average resources	**-1.84%**	0.01%	0.06%
Net interest margin	**5.95%**	8.41%	8.91%
Net profit margin	**-32.06%**	0.13%	0.72%
Interest rate coverage	**-98.13%**	226.29%	186.74%
Debt-to-equity	**506.56%**	361.54%	276.34%
Resources-to-equity	**606.56%**	461.54%	376.34%
CAR	**29.19%**	31.61%	41.02%

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:

	2014	2013
Within one year	**P 8,299,016**	P 24,307,708
After one year but not more than five years	**16,403,378**	23,470,194
More than five years	**15,134,782**	16,499,118
	P 39,837,176	P 64,277,020

The Bank's total rent expense (shown as Occupancy account in the statements of profit or loss) amounted to P28.2 million in 2014, P27.8 million in 2013, and P26.1 million in 2012.

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:

	2014	2013
Within one year	**P 3,505,876**	P 2,616,144
After one year but not more than five years	**12,151,182**	12,846,286
More than five years	**5,315,754**	7,911,525
	P 20,972,812	P 23,373,955

The total rent income on investment properties amounted to P4.1 million, P3.4 million and P2.4 million in 2014, 2013, and 2012, respectively, and is presented as Rental income under Miscellaneous Income account in the statements of comprehensive income (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, 2014, 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:

	Note	**2014**	2013
Trust department accounts	20	**P 223,324,356**	P 216,459,793
Deficiency claims receivable		**1,452,559**	1,434,382
Outward bills for collection		**26,844**	59
Late deposits/payments received		**-**	168,313
Items held as collateral		**-**	20,853
Items held for safekeeping		**-**	4,802

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:

	Notes	**2014**	2013	2012
Settlement of loans receivable arising from property foreclosure		**P 1,505,588**	P 16,234,627	P 10,122,213
Unrealized fair value gains (losses) on AFS securities	9	**(1,115,977)**	(2,616,050)	8,805,967
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, 2014 and 2013 considered as cash and cash equivalents follows (see Note 8):

	2014	2013
Due from other banks	**P 220,538,904**	P 196,418,818
Due from other banks not considered as cash and cash equivalents	**(55,544,317)**	(49,418,170)
	P 164,994,587	P 147,000,648

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 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 Revenue Regulations (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*

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 2014, the Bank reported total GRT amounting to P8,682,789, which is shown as part of Taxes and Licenses account in the 2014 statement of profit or loss.

(b) *Documentary Stamp Tax*

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, 2014, DST affixed amounted to P13,791,140, representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P8,962,947 were charged to the Banks's clients, hence; not reported as part of taxes and licenses in the 2014 statement of profit or loss.

(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, 2014.

(d) *Excise Tax*

The Bank did not have any transaction in 2014 which is subject to excise tax.

(e) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2014 are shown below.

Final	P	5,003,916
Compensation and employee benefits		8,215,337
Expanded		6,545,551
	P	**19,764,804**

(f) *Taxes and Licenses*

The details of Taxes and Licenses account shown in the 2014 statement of profit or loss follows:

GRT	P	8,682,789
DST		4,828,193
Local taxes and business permits		1,884,216
Real property taxes		615,147
	P	**16,010,345**

(g) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2014, 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 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 2014 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, 2014 amounted to P204,188,152.

(b) Deductible Costs of Services

Deductible costs of services at regular tax rate for the year ended December 31, 2014 comprise the following:

Salaries and employee benefits	P	76,684,183
Interest expense		23,980,257
Miscellaneous		6,802,083
	P	**107,466,523**

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2014 which are subject to regular tax rate are shown below.

Gains on assets acquired/exchanged	P	38,584,599
Service charges and fees		17,499,146
Interbank ATM transactions		4,621,429
Penalty on loans		3,814,092
Rental income		3,201,592
Income from Trust		1,455,861
Income from re-ordered checks		818,776
Legal and appraisal fees		201,887
Others		812,144
	P	**71,009,526**

(d) Itemized Deductions

The details of itemized deductions at regular tax rate for the year ended December 31, 2014 are as follows:

Outside services	P	32,546,262
Salaries and allowances		28,217,540
Communication, light and water		27,782,098
Rental		27,703,349
Depreciation and amortization		17,930,600
Taxes and licenses		16,010,345
Insurance		14,639,209
Fuel and oil		11,006,058
Litigation/assets acquired		5,340,584
Office supplies		4,095,610
Repairs and maintenance		3,482,882
Transportation and travel		2,769,161
Management and consultancy fees		2,663,238
Representation and entertainment		2,554,146
Amortization of intangibles		724,102
Advertising		602,621
Miscellaneous		5,581,988
	P	**203,649,793**

CITYSTATE SAVINGS BANK, INC.
List of Supplementary Information
December 31, 2014

Schedule	Content	Page No.
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		
	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, 2014	
	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, 2014

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:				
RCBC	P 1,000,000	P 1,008,191	P 1,008,192	P 64,635
RCBC	9,000,000	9,073,719	9,073,719	579,983
Bureau of Treasury	10,000,000	10,437,206	10,437,206	506,945
Bureau of Treasury	10,000,000	10,437,206	10,437,206	506,945
B. LOCAL GOVERNMENT - INFANTA WATER BOND-DBP *	50,000,000	41,200,000	41,200,000	2,182,362
C. CLUB SHARES				
WACK-WACK Country Club and Golf Course	-	15,000,000	15,000,000	-
Forest Hills Country Club	-	70,000	70,000	-
Total	P 80,000,000	P 87,226,322	P 87,226,323	P 3,840,870

* 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, 2014

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 359,066,128	P 12,768,286	P 20,091,158	P -	P 351,743,256	P -	P 351,743,256
Due from Affiliates	5,096,552	25,240,954	3,337,362	-	27,000,144	-	27,000,144
TOTAL	P 364,162,680	P 38,009,240	P 23,428,520	P -	P 378,743,400	P -	P 378,743,400

CITYSTATE SAVINGS BANK, INC.
Scheduler D - Intangible Assets - Other Assets
December 31, 2014

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 1,683,896			P 444,104
SERVICE FEE FOR TRUST SYSTEM	140,000		53,667			86,333
SERVICE FEE FOR TRUST SYSTEM (Enhancement)	135,000		13,500			121,500
TRIPLE DES HOST COMPLIANCE DEFINITION	672,000		660,800			11,200
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		19,167			3,833
Sofware Window server	121,515		40,505			81,010
VPN Solutions/VPN Tunnels on Network connection	467,040		155,680			311,360
Oracle Database ENT Edition	4,600,000					4,600,000
IBM Oracle database	2,760,000					2,760,000
License Fee Host Interface Module connection(Finnacle)		P 980,000				980,000
Infosys Master services and License Agreement		15,659,070				15,659,070
(1) unit IBM server (Finacle)		106,000				106,000
Encoder for upgrading for the Finacle System		175,204				175,204
(2) units Fortigate Firewall (Finacle)		310,000				310,000
20% cost of IBM Oracle Database Edition w/ Linux processor		1,840,000				1,840,000
Services rendered for Encoders for Finacle Project		284,158				284,158
Training and Briefing for Finacle Projects		44,741				44,741
Encoder for upgrading for the Finacle System		536,905				536,905
Training and Briefing for Finacle Projects		72,732				72,732
Encoder for upgrading for the Finacle System		66,019				66,019
Training and Briefing for Finacle Projects		22,240				22,240
Sign off design and parameter set up Phase (USD105,000@ 43.627)		4,580,835				4,580,835
License fee for Host Interface Module (Finacle) (Infoserve)		980,000				980,000
Customization and phasing of Finacle Banking System (USD210,000)		9,165,870				9,165,870
Escan Antivirus		200,400				200,400
Training and Briefing for Finacle Projects		21,314				21,314
Training and Briefing for Finacle Projects		9,052				9,052
Additional Licenses on the Finacle System - Infosys Limited (USD 48,000)		2,116,608				2,116,608
SEC website Development by: Techcellar Business Solution		37,240				37,240
Software update license and support - Oracle Database Ent	-	1,473,301	-	-	-	1,473,301
	11,803,645	38,681,690	3,384,300	-	-	47,101,035
Total	**P 44,303,645**	**P 38,681,690**	**P 3,384,300**	**-**	**-**	**P 79,601,035**

CITYSTATE SAVINGS BANK, INC.
Schedule H - Capital Stock
December 31, 2014

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
Common Stock	-	-	-	267,300	412,500	220
	-	-	-	221,100	8,657,114	50
	-	-	-	476,300	5,445,000	1,650
	-	-	-	2,641,700	142,857	110
	-	-	-	5,007,700	2,750,000	1,100
	-	-	-	7,499,250	5,500,000	1,100
	-	-	-	2,846,250	1	1,100
	-	-	-	726,000	550,000	100
	-	-	-	550,000	2,143,350	1,100
	-	-	-	550,000	1	1,100
	-	-	-	119,900	714,450	1,100
	-	-	-	1,428,900	714,450	1
	-	-	-	7,700	1	110
	-	-	-	296,416	4,950	1,100
	-	-	-	500,000	1	1,100
	-	-	-	182,000	110	1,100
	-	-	-	182,000	1,650,000	
	-	-	-	-	33,330	
	-	-	-	-	110	3,300
	-	-	-	-	1,000	1,100
	-	-	-	-	1	110,000
	-	-	-	-	1	1,650
	-	-	-	-	1	82,500
	-	-	-	-	3,890,000	1
	-	-	-	-	-	1,100
	-	-	-	-	-	1
	-	-	-	-	-	1,100
	-	-	-	-	-	825,000
	-	-	-	-	-	1,100
	-	-	-	-	-	1,650
	-	-	-	-	-	4,400
	-	-	-	-	-	52,300
	-	-	-	-	-	87,950
	-	-	-	-	-	22,110
	-	-	-	-	-	8,800
	-	-	-	-	-	164,240
	-	-	-	-	-	4,948,894
	-	-	-	-	-	121,790
	-	-	-	-	-	38,310
	-	-	-	-	-	110
	-	-	-	-	-	15,800
	-	-	-	-	-	3,100,074
	-	-	-	-	-	220,000
	-	-	-	-	-	3,521,000
	-	-	-	-	-	3,306,833
	-	-	-	-	-	-
Total	**100,000,000**	**72,764,998**	**-**	**23,502,516**	**32,609,228**	**16,653,254**

CITYSTATE SAVINGS BANK, INC.
Schedule of Financial Indicators
December 31, 2014, 2013 and 2012

Financial Indicator	2014	2013	2012
Return on average equity:			
Net profit / Average total equity accounts	**-9.79%**	0.04%	0.22%
Return on average resources:			
Net profit / Average total resources	**-1.84%**	0.01%	0.06%
Net interest margin:			
Net interest income / Average interest earning resources	**5.95%**	8.41%	9.27%
Net Profit margin:			
Net profit / Revenues	**-32.06%**	0.13%	0.72%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**-98.13%**	226.29%	186.74%
Debt to equity:			
Total liabilities / Total equity	**506.56%**	361.54%	276.34%
Resources to equity:			
Total resources / Total equity	**606.56%**	461.54%	376.34%

[illegible]		[illegible]	[illegible]	[illegible]
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	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans - Employee Contributions * *(effective July 1, 2014)*			✓
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			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
	Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception			✓
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	✓		
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	✓		
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			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2 A68	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 Interpretations - Standing Interpretations Committee (SIC)				
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	✓		

[illegible]				
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 2014 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.

SCHEDULE I

CITYSTATE SAVINGS BANK, INC.
SCHEDULE OF ACCOUNTS RECEIVABLE
GENERAL ACCOUNTING DEPARTMENT
As of DECEMBER 31, 2014

ACCOUNTEE	BOOKED	PARTICULARS	AMOUNT	TOTAL
AFFILIATES				
PHILIPPINE GRAPHIC	5/11/2012	Charge to ads placements as per memo Pay-off salary loan balance (Alegre, Frederick)		158,675.99
FORTUNE GEN INSURANCE	5/31/2012	Unpaid Power and lights at Binondo Branch		264,080.21
ETERNAL PLANS	3/27/2009	For the period February 23, 2009-March 22, 2009	12,500.00	
	4/23/2009	For the period March 23, 2009 - April 22, 2009	12,500.00	25,000.00
CLAYTON LEARNING CENTER	7/30/2013	Application of PAS17 in recognizing rent income for 2012	746,707.69	
	4/30/2014	Application of PAS17 in recognizing rent income for 2013	944,187.94	1,690,895.63
	5/30/2014	Lease of portion of the Bldg at Mandaluyong - May,, 2014	11,539.26	
	6/30/2014	Lease of portion of the Bldg at Mandaluyong - June, 2014	132,157.00	
	7/30/2014	Lease of portion of the Bldg at Mandaluyong - July, 2014	132,157.00	
	8/29/2014	Lease of portion of the Bldg at Mandaluyong - August, 2014	132,157.00	
	9/30/2014	Lease of portion of the Bldg at Mandaluyong - September, 2014	132,157.00	
	10/31/2014	Lease of portion of the Bldg at Mandaluyong - October, 2014	132,157.00	
	11/28/2014	Lease of portion of the Bldg at Mandaluyong - November, 2014	132,157.00	
	12/29/2014	Lease of portion of the Bldg at Mandaluyong - December, 2014	132,157.00	936,638.26
ALC Realty Development Corp.	12/29/2014	Sale of Ropa	20,419,625.00	
Citystate Power Loans	5/15/2014	Penalty Payment(Note: Unreconcile Item) fao Jose Rodrigo or Maila torres	207,237.46	
Brown Madonna Press Inc.	3/31/2014	Documentary Stamp for Loan Proceeds	29,762.00	
Fortune Medicare	3/31/2014	Documentary Stamp for Loan Proceeds	344,309.00	21,000,933.46
TOTAL				24,076,223.55

Prepared by:

Martin Jerry E. Machado
SM - General Accounting

Noted by:

Eduardo O. Olavario
VP- Controller

SCHEDULE II

CITYSTATE SAVINGS BANK, INC.
SCHEDULE OF ACCOUNTS PAYABLE
As of DECEMBER 31,2014

BOOKED	ACCOUNTEE	PARTICULARS		TOTAL
	AFFILIATES			
6/28/2013	FORTUNE CARE	Overremittance for the month of June 2013	(388.00)	
7/12/2013		Maternity for Cristina Somera	1,022.00	
7/30/2013		Overremittance for the month of July 2013	(776.00)	
8/29/2013		Overremittance for the month of August 2013	(1,675.00)	
9/30/2013		Overremittance for the month of September, 2013	(511.00)	
10/31/2013		Fortune care dependents FAO: P. Canare	3,803.00	
10/13/2014		Payroll Oct 1-15, 2014	16,231.50	
10/22/2014		Maternity benefits FAO; R. Aguilar	1,552.00	
10/27/2014		Payroll Oct 16-31, 2014	15,843.50	
11/13/2014		Payroll November 1-15, 2014	15,843.50	
11/21/2014		Renewal for HMO dependents	(42,266.00)	
11/28/2014		Payroll November 16-30, 2014	34,427.50	
12/1/2014		Renewal for HMO dependents	(42,266.00)	
12/11/2014		SSS maternity FAO: Katherine Cruz	1,584.00	
12/12/2014		Payroll December 1-15, 2014	19,962.50	
12/19/2014		SSS maternity FAO: R. Aguilar	388.00	
12/23/2014		Payroll December 16-31, 2014	19,566.50	
12/29/2014		Renewal for HMO dependents	(40,313.00)	
12/29/2014		SSS maternity FAO: M. Punta	375.00	2,404.00
2/13/2012	FORTUNE LIFE INSURANCE., CORP.	Diff in remittance for the month of February 2012	276.05	
12/10/2012		Diff in remittance for the month of November 2012	(0.30)	
7/12/2013		Payroll July, 2013 (diff)	(421.55)	
7/25/2013		Maternity for Cristina Somera	1,686.00	
8/13/2013		Payroll August, 2013 (diff)	406.90	
9/16/2013		Payroll September, 2013 (diff)	828.45	
10/11/2013		Payroll October 1-15, 2013	(1,500.00)	
7/30/2014		for adjstment	0.01	
8/29/2014		for adjstment	(0.01)	
11/13/2014		Payroll December 1-15, 2013	4,843.23	
11/28/2014		Payroll December 16-31, 2013	4,843.23	10,962.01

BOOKED	ACCOUNTEE	PARTICULARS		TOTAL
7/15/2011	KEY FINANCE	refund on over deductions	(812.50)	
8/11/2011		Diff in remittenace for the month of July 2011	2,437.50	
9/20/2011		Diff in remittance for the month of August 2001	1,404.50	
9/27/2011		Payroll period Sept 16-31, 2011	(3,325.50)	
9/27/2011		Payroll period September 2011 (DIFF)	1,108.50	
1/6/2012		Diff in remittance for the November 2011	2,437.50	
12/13/2011		Diff in remittance for the December 2011	(1,223.00)	
1/13/2012		Diff in remittance for the January 2012	(402.00)	
2/13/2012		Diff in remittance for the February 2012	(812.50)	812.50
10/31/2012	EASTERN DEFENDERS	Diff in Agency Fees		855.00
02-24-12	FORTUNE GUARANTEE	Insurance on Auto Loan Release		14,776.50
07-17-13	BROWN MADONNA PRESS	Bank Charges on TL - DOSRI Release		1,539.00
	TOTALS			31,349.01

Prepared by: MARTIN JERRY E. MACHADO

Noted by: EDUARDO D. OLAVARIO
VP-COMPTROLLER

SCHEDULE - III

A map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates.

Citystate Savings Bank, Inc.
-No Subsidiaries and Associates

Noted by:

Gemma F. Montes
Human Resources Department Head