SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended June 30, 201**5**

2. Commission 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.

Makati City, Metro Manila, Philippines

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

Citystate Centre Building, 709 Shaw Boulevard, Pasig City   1600

7. Address of issuer's principal office   Postal Code

(632) 470-3333

8. Issuer's telephone number, including area code

N/A

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock	72,764,998

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

Yes [√]   No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange   Common Stock.

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 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 [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CSBI's unaudited "interim" financial statements are shown in Annex "A" of this report comprising of the following:

a) Consolidated Statements of Condition as of June 30, 2015 and December 31, 2014;

b) Consolidated Statements of Income and Expenses for the quarter ended June 30, 2015 (with comparative figures for the same period ended June 30, 2014);

c) Consolidated Statements of Income and Expenses for the six months ended June 30, 2015 (with comparative figures for the same period ended June 30, 2014);

d) Consolidated Statements of Changes in Equity for the quarter ended June 30, 2015 (with comparative figures for the period ended June 30, 2014);

e) Consolidated Statement of Cash Flow for the period ended June 30, 2015 (with comparative figures for the quarter ended June 30, 2014);

f) Notes to the Financial Statements.

The unaudited "interim" financial statements of CSBI reflect all adjustments which are of normal recurring nature that transpired during the quarter ended June 30, 2015. The bank followed the same accounting policies and methods of computation in the "interim" financial statements as compared with the most recent annual financial statements.

The interim financial statements were prepared in compliance with generally accepted accounting principles in the Philippines as mandated by the Securities and Exchange Commission.

Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations.

For the Period Ended June 30, 2015

Interest Income

Total gross interest income decreased by 11.49% after six months of operation in the amount of P93.929 million against last year's P106.122 million. This was mainly due to the 16.40% decrease in Loans and Receivables, which dropped from P98.282 million to P82.168 million brought about by the decrease in interest income on Jewelry loans. However, Due from BSP and Other Banks rose to P9.201 million this year from P5.959 million last year; while Available-for-sale securities increased to P2.559 million from P1.881 million. The aforementioned were comparative figures for the semesters ending June 30, 2014 and June 30, 2015.

Interest Expense

Interest Expense on Deposit Liabilities in the second quarter amounted to P8.738 million as compared to last year's figure of P6.410 million or a 36.33% increase. For the first semester, Interest Expense grew by P4.198 million from P12.908 million last year to P17.106 million this year which was mainly due to Interest in Time Certificate of Deposit. The Interest Expense of P17.106 million is 18.21% of the Interest Income of P93.929 million.

Other Income/Expenses

Other Income generated after two quarters amounted to P17.569 million as compared to the P20.340 million recorded over the same period last year. This was the result of a significant decrease in Miscellaneous Charges from P11.455 million to P8.140 million due to loss on sale of ROPA. On the other hand, Service Charges and Fees slightly increased from P8.978 million to P9.600 million.

The Bank's Other Expenses increased to P148.660 million from P140.493 million after six months of operation. The variance was mainly due to the increase in Occupancy of P0.298 million from P14.082 million to P14.380 million due to escalation rate in rental of some of our branches; Security, Janitorial and Messengerial Services also increased by P3.290 million from P15.591 million to P18.881 million this year due to additional security services for the newly opened branch; Taxes and Licenses went up to P8.261 million from P6.815 million for a 21.21% increase due to increased business taxes for the additional branch. Likewise, Depreciation and Amortization increased by 66.90% from P10.155 million to P16.949 million due to amortization of I.T. related system; Fuel and Oil also increased from P5.277 million last year to P5.280 million this year; and Insurance was higher to P7.794 million this year from P6.647 million last year due to increase on deposit insurance.

On the other hand, Litigation/Assets acquired decreased by P0.813 million from P1.710 million last year to P0.897 million this year; Employee Benefits declined to P51.188 million from P52.346 million as the fringe benefits (medical, dental and hospitalization) decreased; and Communication, Light and Water decreased by P1.203 million from P13.822 million last year to P12.618 million this year due to decrease in electric consumption of some branches.

Net Income/Loss

The Bank recorded a net loss of P45.243 million as compared to last year's semestral net loss of P55.195 million. This was mainly due to adjustment in Loan/Loss Reserve in compliance with regulatory requirement and acquisition of properties for the establishment of new branches.

Total Resources

The bank's Total Resources decreased to P4.113 billion or 1.88% lower versus P4.192 billion from 2014 year-end level. Due from Bangko Sentral ng Pilipinas went up by 18.55% from P1.038 billion year-end balance to P1.230 billion this quarter. Available for Sale Securities increased by 66.80% or P58.264 million. Other Resources increased by 7.98% from P315.800 million year-end balance to P341.005 million this quarter. Investment Properties increased by 33.04%. Bank Premises, Furniture, Fixtures and Equipment was lower by 2.21% from P225.147 million at year end to P220.171 million this quarter. Due from Other Banks decreased by 31.60%. Cash and Other Cash Items declined by 55.92% or P152.247 million year-end balance to P67.108 million this quarter. Meanwhile, Loans and Receivables were recorded at P1.928 billion lower by 9.50% or P202 million against year-end balance of P2.131 billion.

Total Deposit Liabilities

Deposits generated by the bank’s twenty-eight (28) branches increased by P41.996 million from P3.397 billion year-end balance to P3.355 billion at the end of second quarter of 2015. Of this amount, P2.616 billion or 77.97% comprised savings deposits while the remaining 22.03% or P739.175 million is in the form of demand and time deposits. The Total Deposit Liabilities of P3.355 billion is 96.74% of the Total Liabilities and 81.56% of the Total Liabilities and Equity.

Other Liabilities

This account increased by 8.55% from P104.181 million to P113.086 million for the second quarter of 2015. The ending balance of P113.086 million is 3.26% of the total liabilities.

Capital Funds/Equity

Capital Funds/Equity decreased by P45.662 million from P691.128 million year-end balance to P645.467 million at the end of second quarter of 2015.

Sources of Funds

Deposit generation provided the main source of loanable funds, although Deposit Liabilities slightly decreased by 1.24% to P3.355 billion from P3.397 billion after six months of operation. Marketing programs are being implemented to increase and improve on deposit mix to attain higher interest margin.

Marketing Programs

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

Moreover, Palawan and Sta. Rosa Laguna branches will be opened before the year end, and new ATM sites would be installed to expand the bank's branch network and ATM facilities.

Key Performance Indicators

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

Key Performance Indicators	**CSB** ***June 2015***	**Industry** ***December 2014***
Capital Adequacy		
Capital to Risk Assets Ratio	27.21%	16.77%
Asset Quality		
Non-Performing Loan (NPL) Ratio	6.97%	4.16%
Non-Performing Loan (NPL) Cover	32.68%	31.89%
Liquidity		
Loans to Deposit	52.19%	86.79%
Profitability		
Return on Average Equity	-6.39%	10.70%
Net Interest Margin	2.64%	5.24%
Cost Efficiency		
Cost to Income	175.61%	66.63%

In terms of stability, the bank continues to benefit from a higher Capital Adequacy Ratio (CAR) of 27.21% versus the industry ratio of 16.77%. The bank's NPL ratio of 6.97% surpassed the industry's 4.16% as it continues to be highly selective in its lending operation and improve on loan collection. Allowance for Probable Losses over Non-performing loans is higher at 32.68% versus the industry's 31.89%.

The bank's loan to deposit ratio of 52.19% is lower compared with the thrift banking industry's 86.79%.

In terms of profitability, the bank's Return on Ave. Equity (ROE) is (6.39%), lower than the industry of 10.70%. Its Net Interest Margin is lower at 2.64% as against the industry's 5.24%.

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

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

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

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

	June 2015	June 2014
1. Liquidity Ratio	0.43:1	0.38:1
2. Solvency Ratios		
a) current ratio	0.43:1	0.38:1
b) current liabilities to net ratio	5.33:1	4.06:1
3. Debt-to-equity ratio	5.37:1	4.09:1
4. Asset-to-equity ratio	6.37:1	5.09:1
5. Interest rate Coverage ratio	5.49:1	-4.16:1
6. Profitability Ratio		
a) Return on Asset Ratio	-1.10%	-1.49%
b) Return on Net Worth Ratio	-7.01%	-7.58%

Earnings Per Share

Basic earnings per share are as follows:

	June 30, 2015	June 30, 2014
Net Income	P (45,243,447)	P (55,195,202)
Divided by the number of outstanding shares	72,764,998	72,764,998
Basic earnings per share	(0.62)	(0.76)
	=====	=====

Dividends

No dividends declared during the quarter ended June 30, 2015.

PART II - OTHER INFORMATION

No other information for this period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer Citystate Savings Bank, Inc.

Signature and Title Ruel L. Angga
Chief Compliance Officer

Date August 13, 2015

Principal Financial/Accounting Officer/Comptroller Martin Jerry E. Machado
General Accounting Dept. - OIC

Signature and Title

Date August 13, 2015

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND DECEMBER 31, 2014
(Amounts in Philippine Pesos)

	2015 Unaudited	2014 Audited
R E S O U R C E S		
CASH AND OTHER CASH ITEMS	**67,108,110**	152,246,760
DUE FROM BANGKO SENTRAL NG PILIPINAS	**1,230,405,378**	1,037,862,022
DUE FROM OTHER BANKS	**150,849,366**	220,538,904
AVAILABLE-FOR-SALE SECURITIES	**145,490,601**	87,226,323
LOANS AND RECEIVABLES - Net	**1,928,426,057**	2,130,815,636
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	**220,170,976**	225,147,757
INVESTMENT PROPERTIES - Net	**29,910,091**	22,481,257
OTHER RESOURCES - Net	**341,005,589**	315,800,106
TOTAL RESOURCES	**4,113,366,167**	4,192,118,765
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	**355,441,029**	301,591,137
Savings	**2,615,638,681**	2,688,820,124
Time	**383,734,364**	406,398,497
Total Deposit Liabilities	**3,354,814,074**	3,396,809,758
OTHER LIABILITIES	**113,085,617**	104,180,513
Total Liabilities	**3,467,899,690**	3,500,990,271
EQUITY	**645,466,477**	691,128,494
TOTAL LIABILITIES AND EQUITY	**4,113,366,167**	4,192,118,765

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Semester Ended June 30, 2015
(With Comparative Figures for the Semester Ended June 30, 2014)
(Amounts in Philippine Pesos)

	2015	2014
INTEREST INCOME		
Loans and receivables	82,168,620	98,282,962
Due from BSP and other banks	9,201,005	5,958,650
Available-for-sale securities	2,559,425	1,880,633
	93,929,050	106,122,245
INTEREST EXPENSE		
Deposit liabilities	17,105,715	12,907,835
Others	-	-
	17,105,715	12,907,835
NET INTEREST INCOME	76,823,335	93,214,410
IMPAIRMENT LOSSES - Net	(11,341,507)	26,800,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	88,164,842	66,414,410
OTHER OPERATING INCOME		
Service charges and fees	9,599,596	8,978,410
Trading gains	(170,361)	(92,941)
Miscellaneous	8,139,734	11,454,669
	17,568,969	20,340,138
OTHER OPERATING EXPENSES		
Employee benefits	51,188,178	52,346,293
Security, janitorial and messengerial services	18,880,795	15,591,271
Depreciation and amortization	16,949,157	10,155,355
Occupancy	14,380,489	14,081,992
Communication, light and water	12,618,313	13,821,716
Taxes and licenses	8,260,577	6,815,303
Insurance	7,794,472	6,646,915
Fuel and oil	5,280,824	5,277,250
Repairs and maintenance	1,526,491	1,861,745
Litigation and asset acquired expenses	896,948	1,710,119
Miscellaneous	10,883,462	12,185,271
	148,659,706	140,493,230
PROFIT (LOSS) BEFORE TAX	(42,925,895)	(53,738,683)
TAX EXPENSE	2,317,552	1,456,519
NET PROFIT (LOSS)	(45,243,447)	(55,195,202)
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	(5,614,398)	1,194,388
TOTAL COMPREHENSIVE INCOME (LOSS)	(50,857,845)	(54,000,813)
Earnings Per Share	(0.62)	(0.76)

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Quarter Ended June 30, 2015
(With Comparative Figures for the Quarter Ended June 30, 2014)
(Amounts in Philippine Pesos)

	2015	2014
INTEREST INCOME		
Loans and receivables	39,901,859	48,006,666
Due from BSP and other banks	5,001,493	2,899,650
Available-for-sale securities	1,372,250	833,676
	46,275,602	51,739,992
INTEREST EXPENSE		
Deposit liabilities	8,738,193	6,409,765
Others	-	
	8,738,193	6,409,765
NET INTEREST INCOME	37,537,409	45,330,226
IMPAIRMENT LOSSES - Net	(11,341,507)	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	48,878,916	45,330,226
OTHER OPERATING INCOME		
Service charges and fees	4,867,784	4,740,164
Trading gains	(170,361)	-
Miscellaneous	5,010,986	5,180,953
	9,708,409	9,921,117
OTHER OPERATING EXPENSES		
Employee benefits	26,032,330	27,155,891
Security, janitorial and messengerial services	9,437,095	7,789,813
Depreciation and amortization	9,138,840	5,235,608
Occupancy	7,357,749	7,175,667
Communication, light and water	6,322,669	7,134,252
Taxes and licenses	4,371,136	3,492,547
Insurance	3,638,922	2,906,290
Fuel and oil	2,518,315	2,648,596
Repairs and maintenance	756,354	1,026,040
Litigation and asset acquired expenses	(145,637)	974,365
Miscellaneous	5,206,087	6,735,466
	74,633,861	72,274,535
PROFIT (LOSS) BEFORE TAX	(16,046,536)	(17,023,192)
TAX EXPENSE	1,268,348	690,149
NET PROFIT (LOSS)	(17,314,884)	(17,713,341)
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	(4,304,959)	1,341,040
TOTAL COMPREHENSIVE INCOME (LOSS)	(21,619,843)	(16,372,301)
Earnings Per Share	(0.24)	(0.24)

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE SEMESTER ENDED JUNE 30, 2015
(With Comparative Figures for the Semester Ended June 30, 2014)
(Amounts in Philippine Pesos)

	2015	2014
CAPITAL STOCK		
Balance at the beginning of the period	**727,649,980**	727,649,980
Issuance of additional shares	**-**	-
Balance at the end of the period	**727,649,980**	727,649,980
ADDITIONAL PAID-IN CAPITAL	**2,222,444**	2,222,444
REVALUATION RESERVES		
Balance at the beginning of the period	**7,269,569**	2,645,113
Total Comprehensive Income (Loss)	**(5,614,398)**	1,194,388
Punongbayan Audit Adjustments	**2,213,494**	5,976,767
Balance at the end of the period	**3,868,664**	9,816,268
SURPLUS RESERVES		
Reserve for trust operations during the period	**813,500**	667,914
RETAINED EARNINGS		
Balance at the beginning of the period	**(41,074,930)**	32,773,453
Net income (Loss)	**(45,243,447)**	(55,195,202)
Dividends	-	-
P&A audit adjustments	**(2,769,735)**	(5,429,035)
Balance at the end of the period	**(89,088,111)**	(27,850,784)
TOTAL CAPITAL FUNDS	**645,466,477**	712,505,822

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Semester Ended June 30, 2015
(With Comparative Figures for the Semester Ended June 30, 2014)
(Amounts in Philippine Pesos)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	**(42,925,895)**	(53,738,683)
Adjustments for:		
Gain / (Loss) from sale of ASS	**(5,614,398)**	1,194,388
Depreciation and amortization	**16,949,157**	9,808,757
Punong bayan audit adjustments	**5,195,828**	5,976,767
Operating income before working capital changes	**(26,395,308)**	(36,758,771)
Decrease in loans and receivables	**202,389,579**	155,814,927
Increase (Decrease) in investment properties (ROPA)	**(7,428,834)**	3,556,203
(Increase) in other resources	**(25,205,483)**	(69,131,366)
(Decrease) Increase in deposit liabilities	**(41,995,684)**	142,874,899
Increase in other liabilities	**8,905,104**	20,838,592
Cash from operations	**110,269,374**	217,194,484
Cash paid for income taxes	**(2,317,552)**	(1,456,519)
Net Cash From Operating Activities	**107,951,822**	215,737,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	**(11,972,376)**	(67,748,253)
(Increase) Decrease in available-for-sale securities	**(58,264,278)**	4,836,468
Net Cash (Used) in Investing Activities	**(70,236,654)**	(62,911,785)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of dividends	**-**	-
Issuance of capital stock	**-**	-
Net Cash Used in Financing Activities	**-**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	**37,715,168**	152,826,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**152,246,760**	127,556,153
Due from Bangko Sentral ng Pilipinas	**1,037,862,022**	602,895,583
Due from other banks	**220,538,904**	196,418,818
	1,410,647,686	926,870,554
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	**67,108,110**	96,475,487
Due from Bangko Sentral ng Pilipinas	**1,230,405,378**	829,302,216
Due from other banks	**150,849,366**	153,919,032
	1,448,362,854	1,079,696,735

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND DECEMBER 31, 2014
(Amounts in Philippine Pesos)

1 CORPORATE INFORMATION

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

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

(b) Presentation of Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 *Adoption of New and Amended PFRS*

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

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

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

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

(i) PAS 32 (Amendment), *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* . The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. The Bank's existing settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Bank's financial statements for any periods presented.

(ii) PAS 36 (Amendment), *Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets* . The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement* , should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Bank's non-financial assets were not measured based on fair value less cost of disposal.

(iii) PAS 39 (Amendment), *Financial Instruments:Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting.*

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

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

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

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

(c) Effective Subsequent to 2014 but not Adopted Early

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

(i) PAS 19 (Amendment), *Employee Benefits-Defined Benefit Plans -- Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (1.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements - Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements.

(iii) PAS 16 (Amendment), Property, Plant and Equipment, and PAS 38 (Amendment), Intangible Assets - Clarification of Acceptable Methods of Depreciaton and Amortization (effective from January 1, 2016). The amendment on PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. On the other hand, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

(iv) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others,

(v) Annual Improvements to PFRS

Annual Improvements to PFRS (2010-2012 Cycle)

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets* . The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

- PAS 24 (Amendment), *Related Party Disclosures* . The amendment clarifies the entity providing key management services to a reporting entity is deemed to be a related party of the latter.

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

Annual Improvements to PFRS (2011-2013 Cycle)

- PFRS 13 (Amendment), *Fair Value Measurement* . The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets of financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investement Property* . The amendment clarifies the interrelationship of PFRS 3, *Business Combinations* , and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

Annual Improvements to PFRS (2012-2014 Cycle)

- PFRS 7 (Amendment), Financial Instruments - Disclosures. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7.

- PAS 19 (Amendment), Employee Benefits. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 *Financial Assets*

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

(a) Loans and Receivables

Loans and Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables.

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

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

(b) AFS Securities

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

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

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less subsequent depreciation, amortization and any impairment losses.

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

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

Bank premises	50 years
Office furniture, fixtures and equipment	5 years

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

2.5 Investment Properties

Investment properties include land and building acquired by the Bank from defaulting borrowers which are held either to earn rental income or for capital appreciation or for both, but not held for sale in the next twelve months or used in the rendering of services or for administrative purposes.

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

2.6 Other Resources

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

2.7 Intangible Assets

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

2.8 Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities (except for income tax payable, post employment benefit obligation and other tax related liabilities) are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as Interest Expense in the statement of comprehensive income.

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

2.9 Offsetting Financial Instruments

Financial assets and liabilities are set off and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the aset and settle the liability simultaneously.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation.

2.11 Revenue and Expense Recognition

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

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

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

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

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

(c) *Gains from assets acquired/exchanged* - are recognized in the profit or loss when the title to the assets is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured.

(d) *Trading gains* - are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security disposed of.

(d) Rental income - is accounted for on a straight-line basis over the lease terms on operating leases and is recorded in profit or loss as part of Miscellaneous under the Other Operating Income account. Rental income is generally earned from lease of investment property.

Cost and expenses are recognized in the profit or loss upon utilization of the goods or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis.

2.12 Leases

The Bank accounts for its leases as follows:

(a) Bank as Lessee

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

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

(b) Bank as Lessor

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

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.13 Impairment of Financial Assets

The Banks assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2.14 Impairment of Non-financial Assets

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

2.15 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired.

(b) Post-employment Defined Contribution Plans

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

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits.

(d) Compensated Absences

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

2.16 Income Taxes

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

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

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

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

2.17 Related Party Relationships and Transactions

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

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

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

2.18 Equity

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

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

Revaluation reserves comprise the following:

(a) Net unrealized fair value gain arising from the market-to-market valuation of AFS securities.

(b) Remeasurements of defined benefit post-employment plan based on the accumulated balances of actuarial gains or losses and arising from experience adjustments and other changes in actuarial assumptions used in the determination of defined benefit obligation, and actual return on plan assets (excluding account included in net interest).

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

Retained earnings represent all current and prior period results of operations as reported in the statement of comprehensive income, reduced by the amount of dividends declared.

2.19 Earnings Per Share

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

2.20 Events After the End of the Reporting Period

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

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Impairment of Available-for-sale Securities

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

(b) Distinguishing Investment Properties and Owner-occupied Properties

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

(c) *Distinguishing Operating and Finance Leases*

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

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

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as assets held for sale included as part of Non-financial assets under Other Resources account if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10.

3.2 Key Sources of Estimation Uncertainty

(a) Estimating Impairment Losses on Loans and Receivables

Adequate amount of allowance is provided for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Bank's relationship with the borrowers' current credit status, average age of accounts, value of the collaterals, collection experience and historical loss experience.

(b) Determining Fair Value Measurement for AFS Securities

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument.

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

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

(d) *Fair Value Measurement of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings acquired from defaulting borrowers not held for sale in the next twelve months. The estimated fair values of these assets, are determined by in-house and independent appraisers.

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

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows.

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

The determination of the amounts of post-employment benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, expected rate of salary increases.

4 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's Risk Management Committee (RMC) has overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed. The Bank's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

4.1 Credit Risk

Credit risk is the risk that the counterpart in a transaction may default and arises from lending, treasury, and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the Accounts Management Department (AMD), which undertakes several functions with respect to credit risk management.

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

4.2 Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met.

4.3 Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, SPURRA and floating rate loans. The volatility in the interest rates of these financial instruments will result to an increse or decrease of the Bank's interest spread, and consequently will affect its financial performance.

5 CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 *Carrying Amounts and Fair Values by Category*

(a) Due from BSP and other Banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks include interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount.

(b) Loans and receivables and other resources

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

(c) Deposit Liabilities

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(d) Other Liabilities

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

5.2 *Offsetting of Financial Assets and Financial Liabilities*

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, each agreement betweent 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 defauld of the other party.

6 FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 *Fair Value Hierarchy*

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

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

b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

6.2 *Financial Instruments Measurement at Fair Value*

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

a) Debt Securities

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

b) Propriety Shares

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

6.3 *Fair Value Disclosures for Investment Properties*

The fair value fo the Bank's investment properties were determined based on the following approaches:

a) Fair Value Measurement for Land

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

b) Fair Value Measurement for Buildings

The Level 3 fair value of the buildings, were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractof's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees.

7 DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP)

As of June 30, 2015 and December 31, 2014, the Bank has deposits considered as mandatory reserves with the BSP totaling P1,230.41 billion and P1,037.86 billion, respectively.

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

8 DUE FROM OTHER BANKS

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

	2015	2014
Time	**88,218,121**	114,806,433
Savings	**62,631,244**	105,732,471
	150,849,366	220,538,904

Savings accounts represent clearing and other depository accounts with other banks.
Time includes special savings deposits and have average maturities of one month.

9 AVAILABLE-FOR-SALE SECURITIES

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

	2015	2014
Government debt securities:		
Unquoted	**38,257,142**	41,200,000
Quoted	**91,363,459**	30,956,323
Quoted proprietary club shares	**15,870,000**	15,070,000
	145,490,601	87,226,323

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

Unquoted debt securities amounting to P38.2 million and P41.2 million as of June 30, 2015 and December 31, 2014, respectively, is issued by the local government of Infanta.
This investment is carried at cost as the fair value of such security cannot be determined.

Proprietary club shares consist of golf shares of Forest Hills Golf & Country Club, previously acquired from borrowers as settlement of loan, and of Wack Wack Golf & Country Club. The golf shares have been designated by the Bank as AFS securities as these shares are being held indefinitely.

10 LOANS AND RECEIVABLES

The details of this account follow:

	2015	2014
Receivables from customers	**1,793,860,450**	1,985,161,677
Sales contract receivables	**115,555,587**	138,224,486
Long-term negotiable certificate of deposit	**25,580,506**	20,000,000
Other receivables	**41,882,851**	37,805,527
	1,976,879,394	2,181,191,690
Unearned interests, discounts and other charges	**(7,203,266)**	(9,125,985)
Allowance for impairment	**(41,250,070)**	(41,250,070)
	1,928,426,057	2,130,815,636

11 BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land	**Bank Premises**	**Office Furniture, Fixtures and Equipment**	**Leasehold Improve-ments**	**Total**
June 30, 2015					
Cost	71,375,102	146,991,449	140,130,221	23,633,644	382,130,416
Accumulated depreciation and amortization	-	(47,138,385)	(101,652,358)	(13,168,697)	(161,959,441)
Net Carrying Amount	**71,375,102**	**99,853,064**	**38,477,863**	**10,464,947**	**220,170,976**
December 31,2014					
Cost	P 71,375,102	P 146,641,240	P 138,318,214	P 22,709,254	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	225,147,757

Depreciation and amortization expenses amounting to P16.9 million for the period ended June 30, 2015 and P10.2 million for the period ended June 30, 2014 are shown as part of the Depreciation and Amortization account in the statements of Profit or Loss.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of June 30, 2015 the Bank has satisfactorily complied with this BSP requirement.

12 INVESTMENT PROPERTIES

	Land	Building	Total
June 30, 2015			
Cost	22,338,316	13,231,862	35,570,178
Accumulated depreciatic	-	(5,109,997)	(5,109,997)
Allowance for impairme	(550,090)		(550,090)
Net Carrying Amount	**21,788,226**	**8,121,865**	**29,910,091**
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 impairme	(550,089)		(550,089)
Net Carrying Amount	P 16,882,965	P 5,598,292	P 22,481,257

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P1.57 million and P1.65 million for the period ended June 30, 2015 and 2014, respectively, and is recorded as part of Rental Income under Miscellaneous Income account in the statements of comprehensive income.

13 OTHER RESOURCES

The details of this account follow:

	2015	2014
Non-financial assets - net	**189,376,371**	185,683,678
Computer software - net	**47,207,436**	47,824,516
Branch licenses	**32,500,000**	32,500,000
Sundry debits	**29,839,805**	12,550,917
Prepaid expenses	**10,347,565**	6,575,566
Security deposits	**6,928,667**	6,917,657
Stationery and supplies on hand	**7,638,577**	6,887,952
Deferred tax assets - net	**3,667,050**	6,467,636
Deposit withPhilippine Clearing House Corp (PCHC)	**2,500,000**	2,500,000
Advance rental	**2,290,293**	2,681,493
Documentary stamps	**557,550**	566,210
Building under construction	**4,348,945**	
Bancnet	**500,000**	500,000
Utility deposit	**821,014**	445,632
Other investments	**153,333**	153,333
Advances to suppliers	**5,000**	5,000
Miscellaneous	**2,323,982**	3,540,517
	341,005,589	315,800,106

Non-financial assets include foreclosed vehicles and jewelry items foreclosed from borrowers. Depreciation expense recognized for the foreclosed vehicles amounting to 346,334.93 in 2015 and 896,649.20 in 2014 are included as part of Depreciation and Amortization account in the Statements of Comprehensive Income.

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

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of five to ten years.

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

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

14 DEPOSIT LIABILITIES

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

	2015	2014
Philippine Peso	**3,268,263,297**	3,307,672,948
US Dollars	**86,550,777**	89,136,810
	3,354,814,074	3,396,809,758

15 OTHER LIABILITIES

The balance of this account consists of the following:

	2015	2014
Accounts payable	**39,345,222**	54,727,117
Accrued expenses	**31,157,218**	16,412,054
Cashier's and manager's checks	**21,712,986**	11,658,890
Sundry credits	**18,251,789**	7,239,146
Security deposits	**960,241**	1,065,847
Bills purchased clearing	**1,556,362**	518,000
Post employment benefit obligation	**-**	12,418,975
Miscellaneous	**101,798**	140,484
	113,085,617	104,180,513

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

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

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

16 EQUITY

16.1 Capital Stock

As of June 30, 2015 and December 31, 2014, the Bank has total authorized capital stock of 100,000,000 common shares at P10 par value per share. As of those dates, total issued and outstanding shares consist of 72,764,998 shares amounting to P727.6 million.

16.2 Capital Management and Regulatory Capital

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

(a) unbooked valuation reserves and other capital capital adjustments as may be required by the BSP;

(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interest;

(c) deferred tax asset or liability;

(d) goodwill;

(e) accumulated equity in earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied; and

(f) appraisal increment on bank premises, furniture, fixtures and equipment other than those allowed to be recognized in connection with a merger or acquisition.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out 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 amount of surplus funds available for dividend declaration is determined also on the basis of regulatory networth after considering certain adjustments.

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

16.3 Minimum Capital Requirement

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

17 MISCELLANEOUS INCOME AND OTHER MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

17.1 Miscellaneous Income

	2015	2014
Income on assets acquired	**369,054.29**	4,064,504
Penalty on Loans	**1,917,775.23**	1,135,869
Income or loss - Trust dept	**1,154,949.79**	722,125
Others	**4,697,954.54**	5,532,171
	8,139,734	11,454,669

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

17.2 Miscellaneous Expenses

	2015	2014
Stationery and supplies used	**1,341,155**	2,108,925
Representation and entertainment	**656,926**	1,768,080
Management & other professional fees	**1,203,489**	1,437,575
Travelling expenses	**951,226**	1,090,427
Banking fees	**714,047**	627,693
Amortization of computer software	-	-
Advertising and publicity	**416,446**	289,297
Commission fees	**90,189**	-
Freight fees	**20,833**	51,103
Periodicals and magazines	**6,596**	16,850
Information technology	**61,084**	6,354
Membership fees and dues	**8,000**	8,086
Others	**5,413,470**	4,780,880
	10,883,462	12,185,271

18 TAXES

18.1 *Gross Receipts Tax (GRT)*

In lieu of value-added taxes, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Sections 121 of the amended Tax Code.

18.2 *Documentary Stamp Tax (DST)*

The Bank is enrolled under the Electronic DST system, In general, the Bank's DST transactions arise from the execution of debt instruments, security documents, and bills of exchange.

19 RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into varying transactions with its related parties, certain directors, officers, stockholders, and related interests (DOSRI), and with its funded retirement plan.

19.1 Loans to Related Parties/DOSRI

Under existing policies of the Bank, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower.

19.2 Transactions with the Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement.

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

19.3 Lease Transactions

The Bank, as a lessee, has lease agreements with related parties under common ownership. In relation to these lease agreements, the Bank made certain security deposits totaling P6.9 million and P7.0 million as of June 30, 2015 and December 31, 2014, respectively, and are presented as part of Other Resources account in the statements of financial position. Rent expense arising from these leases are presented as part of Occupancy in the statements of comprehensive income.

20 COMMITMENTS AND CONTINGENCIES

20.1 Operating Lease Commitments - Bank as Lessee

The Bank leases the premises where some of its branches and extension offices are situated for a period of one to ten years, renewable upon mutual agreement between the parties and with terms of one to seven years. These leases are accounted for as operating leases which either require fixed rental rate over the term of the lease or with stipulated annual escalation rate of 5% to 10%.

The Bank's total rent expense (shown as Occupancy account in the statements of comprehensive income) amounted to P14.38 million for the period ended June 30, 2015 and P14.08 million for the period ended June 30, 2014

20.2 Operating Lease Commitments - Bank as Lessor

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

The total rent income on investment properties amounted to P1.57 million and P1.65 million for the period ended June 30, 2015 and June 30, 2014, respectively and is presented as Rental income under Miscellaneous Income account in the Statements of Comprehensive Income.

20.3 Others

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the financial statements. Management believes that, as of June 30, 2015, losses, if any, that may arise from these commitments and contingent liabilities will not have a material effect on the Bank's financial statements.

Following is a summary of the Bank's commitments and contingent accounts as of June 30, 2015 and December 31, 2014.

	2015	2014
Trust and Agency Accounts	**526,172,126**	223,324,356
Others	**1,786,196**	1,479,403

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

a) Material transactions that had an effect on the assets, liabilities, equity, net income, cash flows which are of unusual nature or size brought about by seasonal events or cyclical events.

b) Changes in estimates of amounts reported in prior interim periods of prior financial years that have material effect in the current interim period.

c) There are no known material commitments for capital expenditures as of reporting date.

d) Issuances, repurchases, and repayments of equity securities

e) Segment revenue and segment result for business segments or geographical segments.

f) Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

g) Material contingencies and any other events or transactions that are material to an understanding of the current interim period.

h) Events that will trigger direct or contingent financial obligations that is material to the company including any default or acceleration of an obligation.

i) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

CITYSTATE SAVINGS BANK
AGING OF ACCOUNTS RECEIVABLE
As of JUNE 30, 2015

Accountee	Below 60 days	61 to 180 days (Substandard)	181 to 360 days (Doubtful)	361 days or more (Loss)	TOTAL
HEAD OFFICE	4,382,998.91	1,483,230.39	1,952,594.40	6,071,735.32	13,890,559.02
CHINO ROCES BRANCH	-	-	-	321,368.88	321,368.88
BINONDO BRANCH	-	-	-	-	-
PANADEROS BRANCH	-	-	-	-	-
PACO BRANCH	-	-	-	-	-
GUADALUPE BRANCH	-	-	-	-	-
MABINI BRANCH	5,000.00	-	-	-	5,000.00
BACLARAN BRANCH	-	-	-	-	-
PASAY BRANCH	-	-	-	-	-
SHAW BRANCH	10,000.00	10,000.00	-	-	20,000.00
CUBAO	-	-	-	-	-
MUNTINLUPA	-	-	4,748.61	-	4,748.61
CALOOCAN	-	-	-	-	-
MARIKINA	6,000.00	-	-	-	6,000.00
BLUMENTRITT	-	-	-	-	-
LAS PIÑAS	5,000.00	-	-	-	5,000.00
GREENHILLS	-	-	-	-	-
PASAY ROAD	-	-	-	-	-
ANTIPOLO	-	-	-	-	-
KATIPUNAN	3,000.00	-	-	-	3,000.00
TAGUIG	-	-	-	-	-
DAGUPAN	-	-	-	-	-
URDANETA	3,220.00	-	-		3,220.00
BALIUAG BRANCH	-	-	-	-	-
MEYCAUYAN BRANCH	-	-	-	-	-
PLARIDEL	-	480.00	-	-	480.00
BATANGAS	-		-		-
CEBU BRANCH	64.98	-	-	-	64.98
TOTAL	**4,415,283.89**	**1,493,710.39**	**1,957,343.01**	**6,393,104.20**	**14,259,441.49**