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 September 30, 201**4**

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 September 30, 2014 and December 31, 2013;

b) Consolidated Statements of Income and Expenses for the quarter ended September 30, 2014 (with comparative figures for the same period ended September 30, 2013);

c) Consolidated Statements of Income and Expenses for the period ended September 30, 2014 (with comparative figures for the same period ended September 30, 2013);

d) Consolidated Statements of Changes in Equity for the period ended September 30, 2014 (with comparative figures for the period ended September 30, 2013);

e) Consolidated Statement of Cash Flow for the period ended September 30, 2014 (with comparative figures for the quarter ended September 30, 2013);

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 September 30, 2014. 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 September 30, 201**4**

Interest Income

Total gross interest income decreased by 15.21% after nine months of operation in the amount of P170.579 million against last year's P201.173 million. This is a result of a significant decrease of 19.85% in Loans & Receivables that amounted to P151.752 million this year versus the P189.338 million posted in September 2013. This was mainly due to a decline in interest income generated from Jewelry Loans.

Meanwhile, Due from BSP & Other Banks increased by 66.80%. This upward trend is due to the P50 Million placement at Malayan Bank. Available-for-sale securities increased by 5.12%. The aforementioned were comparative figures for the period ended September 30, 2014 and September 30, 2013.

Interest Expense

Interest Expense on Deposit Liabilities for the third quarter amounted to P8.880 million as compared to last year's figure of P6.173 million or an increase of 43.85%. After nine months of operation, Interest Expense increased by 3.88% from last year's P20.975 million to P21.789 million. This was brought about by the increase in interest expense on savings deposit for the period ended September 2014. The P21.789 million Interest Expense is 12.77% of the P170.579 million Interest Income.

Other Income/Interest Expense

Other Income generated during the third quarter dropped to P10.703 million higher than the P10.100 million generated over the same period last year, or an increase of 5.97%. After three quarters, Other Income, likewise, showed an increase of 14.5% from P27.112 million to P31.043 million. This was mainly due to the significant increase in miscellaneous income from the acquired assets.

Other Operating Expenses increased by P14.866 million to P216.042 million from last year's level of P201.176 million. The bank's representation & entertainment, advertising & publicity, and various trainings & seminars grouped as Miscellaneous Expenses increased by 13.98% from P17.164 million to P19.563 million. Insurance also increased by 1.81% from P10.075 million to P10.257 million. Likewise, Taxes and Licenses increased by 4.09% from P11.881 million to P12.367 million due to increase in Gross Receipts Tax. Employee Benefits increased by 6.51% from P74.276 million to P79.111 million due to increase in Salaries & Wages. Occupancy inched higher by 1.38% from P20.385 million to P20.666 million. Security, Janitorial and Messengerial Services increased by 4.54% from P22.399 million to P23.416 million due to newly opened branches. Communication, Light & Water went up to P21.351 million this year compared to last year's P18.123 million due to Information Technology related expenses such as Reuter, Ethernet and IP VPN main connection. Fuel & Oil slightly increased to P7.740 million compared to last year's P7.721 million.

Likewise, Depreciation & Amortization rose by 24.39% from P11.998 million to P14.925 million due to increase in depreciation expense of bank premises and office equipments. Litigation/assets acquired increased by 2.87% from P3.866 million to P3.977 million. Repairs & Maintenance decreased by 18.89% from P3.288 million to P2.667 million.

Net Income/Loss

The Bank recorded a net loss of P65.459 million as compared to last year's net income of P4.389 million. This was mainly due to posted valuation reserves and adjustment in Loan/Loss Reserve in compliance with regulatory requirement.

Total Resources

Total Resources increased by P273 million or 7.78% from P3.510 billion to P3.783 billion after nine months of operation. This was mainly due to significant increases in Due from BSP from P602.895 million to P1.032 billion, Bank Premises, Furniture, Fixtures & Equipment from P223.138 million to P282.079 million, and Other Resources from P257.278 million to P343.644 million.

On the other hand, Loans & Receivables were recorded at P1.770 billion lower by 10.65% or P211 million from last year of P1.981 billion. Available for Sale Securities decreased by 8.56% from P95.250 million to P87.091 million this year while Cash & Other Cash Items declined to P96.582 million this year from P127.556 million last year. Due from Other Banks decreased from P196.419 million to P147.859 million, likewise Investment Properties declined from P26.542 million to P22.734 million.

Total Deposit Liabilities

Deposits generated by the bank's twenty-eight (28) branches increased by P265 million from P2.680 billion year-end balance to P2.945 billion at the end of third quarter of 2014. Of this amount, P2.233 billion or 75.82% comprised savings deposits while the remaining 24.18% or P712.096 million is in the form of demand and time deposits. The increase in Deposit Liabilities can be attributed to the bank's aggressive marketing strategy. The Total Deposit Liabilities of P2.945 billion is 95.52% of the Total Liabilities and 77.85% of the Total Liabilities and Equity.

Other Liabilities

This account increased by 97.15% from P69.961 million to P137.927 million for the third quarter of 2014. The ending balance of P137.927 million is 4.47% of the total liabilities.

Capital Funds/Equity

Capital Funds/Equity fell by P60.411 million from P760.530 million year-end balance to P700.119 million at the end of third quarter of 2014 representing 7.94% decrease.

Sources of Funds

Deposit generation provided the main source of loanable funds as Deposit Liabilities increased to P2.945 billion from P2.680 billion after nine months of operation for a P265 million growth or 9.89%. This upward trend is expected to continue as marketing programs are adopted to increase deposits 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 will be more aggressive in its advertising campaign through print and radio advertisements in the coming months.

Furthermore, more branches would be opened 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** ***September 2014***	**Industry** ***March 2014***
Capital Adequacy		
Capital to Risk Assets Ratio	32.82%	14.95%
Asset Quality		
Non-Performing Loan (NPL) Ratio	6.54%	4.94%
Non-Performing Loan (NPL) Cover	45.43%	71.36%
Liquidity		
Loans to Deposit	59.07%	85.62%
Profitability		
Return on Average Equity	-8.84%	6.85%
Net Interest Margin	7.83%	5.28%
Cost Efficiency		
Cost to Income	132.25%	67.35%

In terms of stability, the bank continues to benefit from a higher Capital Adequacy Ratio (CAR) of 32.82% versus the industry ratio of 14.95%. The bank's NPL ratio of 6.54% is higher than the industry's 4.94%. Allowance for Probable Losses over Non-performing loans is lower at 45.43% versus the industry's 71.36%.

The bank's loan to deposit ratio of 59.07% is slightly lower compared with the thrift banking industry's 85.62%.

In terms of profitability, the bank's Return on Ave. Equity (ROE) is (8.84%); lower than the industry of 6.85%. Its Net Interest Margin is lower at 7.83% 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	***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:

	September 2014	September 2013
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	4.37:1	2.78:1
3. Debt-to-equity ratio	4.40:1	2.80:1
4. Asset-to-equity ratio	5.40:1	3.80:1
5. Interest rate Coverage ratio	-2.89:1	0.29:1
6. Profitability Ratio		
a) Return on Asset Ratio	-1.73%	0.15%
b) Return on Net Worth Ratio	-9.35%	0.56%

Earnings Per Share

Basic earnings per share are as follows:

	September 30 2014	September 30 2013
Net Income	P (65,459,060)	P 4,388,515
Divided by the number of outstanding shares	72,764,998	72,764,998
Basic earnings per share	(0.899)	0.060

Dividends

No dividends declared during the quarter ended September 30, 2014.

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 November 13, 2014

Principal Financial/Accounting Officer/Comptroller Eduardo O. Olavario
Vice President

Signature and Title

Date November 13, 2014

ANNEX "A"

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(Amounts in Philippine Pesos)

	2014 Unaudited	2013 Audited
RESOURCES		
CASH AND OTHER CASH ITEMS	96,581,720	127,556,153
DUE FROM BANGKO SENTRAL NG PILIPINAS	1,032,550,503	602,895,583
DUE FROM OTHER BANKS	147,858,827	196,418,818
AVAILABLE-FOR-SALE SECURITIES	87,091,005	95,249,914
LOANS AND RECEIVABLES - Net	1,770,396,273	1,981,009,231
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	282,079,501	223,137,655
INVESTMENT PROPERTIES - Net	22,733,789	26,542,525
OTHER RESOURCES - Net	343,644,518	257,278,193
TOTAL RESOURCES	3,782,936,137	3,510,088,072
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	283,026,433	279,287,419
Savings	2,232,793,134	2,124,948,822
Time	429,070,321	275,361,324
Total Deposit Liabilities	2,944,889,888	2,679,597,565
OTHER LIABILITIES	137,926,726	69,960,638
Total Liabilities	3,082,816,614	2,749,558,203
EQUITY	700,119,523	760,529,869
TOTAL LIABILITIES AND EQUITY	3,782,936,137	3,510,088,072

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Quarter Ended September 30, 2014
(With Comparative Figures for the Quarter Ended September 30, 2013)
(Amounts in Philippine Pesos)

	2014	2013
INTEREST INCOME		
Loans and receivables	55,994,331	58,627,928
Due from BSP and other banks	4,280,956	2,174,544
Available-for-sale securities	950,919	954,874
Others	3,230,952	613,414
	64,457,159	62,370,760
INTEREST EXPENSE		
Deposit liabilities	8,880,990	6,173,162
Others	-	88,956
	8,880,990	6,262,118
NET INTEREST INCOME	55,576,168	56,108,641
IMPAIRMENT LOSS (RECOVERY)	-	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSS AND RECOVERY	55,576,168	56,108,641
OTHER OPERATING INCOME		
Service charges and fees	4,222,371	4,144,657
Miscellaneous	6,480,651	5,955,011
	10,703,022	10,099,667
OTHER OPERATING EXPENSES		
Employee benefits	26,764,803	25,626,051
Security, janitorial and messengerial service	7,824,887	7,610,187
Communication, light and water	7,529,454	6,659,543
Occupancy	6,584,491	6,988,203
Taxes and licenses	5,552,186	3,979,584
Depreciation and amortization	5,116,611	4,866,418
Insurance	3,610,476	3,883,875
Fuel and oil	2,463,138	2,687,830
Litigation and asset acquired expenses	2,267,279	1,220,555
Repairs and maintenance	804,899	1,052,208
Miscellaneous	7,030,764	5,625,857
	75,548,989	70,200,311
PROFIT (LOSS) BEFORE TAX	(9,269,798)	(3,992,003)
TAX EXPENSE	994,061	572,117
NET PROFIT (LOSS)	(10,263,859)	(4,564,119)
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	(2,122,441)	(2,496,716)
TOTAL COMPREHENSIVE INCOME (LOSS)	(12,386,300)	(7,060,835)
Earnings Per Share	(0.14)	(0.06)

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2014
(With Comparative Figures for the Period Ended September 30, 2013)
(Amounts in Philippine Pesos)

	2014	2013
INTEREST INCOME		
Loans and receivables	151,752,194	189,337,950
Due from BSP and other banks	10,239,606	6,138,994
Available-for-sale securities	2,831,552	2,693,533
Financial assets at fair value through profit or loss	-	1,127,952
Others	5,756,052	1,874,256
	170,579,404	201,172,685
INTEREST EXPENSE		
Deposit liabilities	21,788,826	20,703,655
Others	-	271,281
	21,788,826	20,974,937
NET INTEREST INCOME	148,790,578	180,197,748
IMPAIRMENT LOSS (RECOVERY)	26,800,000	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSS AND RECOVERY	121,990,578	180,197,748
OTHER OPERATING INCOME		
Service charges and fees	13,200,781	12,612,471
Miscellaneous	17,842,379	14,499,303
	31,043,160	27,111,774
OTHER OPERATING EXPENSES		
Employee benefits	79,111,096	74,276,430
Security, janitorial and messengerial serv	23,416,158	22,398,819
Communication, light and water	21,351,170	18,122,737
Occupancy	20,666,483	20,384,787
Depreciation and amortization	14,925,368	11,998,016
Taxes and licenses	12,367,488	11,881,368
Insurance	10,257,392	10,074,917
Fuel and oil	7,740,389	7,720,713
Litigation and asset acquired expenses	3,977,398	3,866,033
Repairs and maintenance	2,666,644	3,287,662
Miscellaneous	19,562,634	17,164,100
	216,042,219	201,175,581
PROFIT (LOSS) BEFORE TAX	(63,008,481)	6,133,942
TAX EXPENSE	2,450,579	1,745,427
NET PROFIT (LOSS)	(65,459,060)	4,388,515
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	(928,053)	(3,859,300)
TOTAL COMPREHENSIVE INCOME (LOSS)	(66,387,113)	529,216
Earnings Per Share	(0.90)	0.06

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2014
(With Comparative Figures for the Period Ended September 30, 2013)

(Amounts in Philippine Pesos)

	2014	2013
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	**2,645,113**	11,539,436
Total Comprehensive Income (Loss)	**(928,053)**	(3,859,300)
Punongbayan Audit Adjustments	**5,976,767**	(141,513)
Balance at the end of the period	**7,693,827**	7,538,623
SURPLUS RESERVES		
Reserve for trust operations during the period	**667,914**	507,697
RETAINED EARNINGS		
Balance at the beginning of the period	**32,773,453**	47,401,380
Net income (Loss)	**(65,459,060)**	4,388,515
P&A audit adjustments	**(5,429,035)**	836,909
Balance at the end of the period	**(38,114,642)**	52,626,804
TOTAL CAPITAL FUNDS	**700,119,523**	790,545,549

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2014
(With Comparative Figures for the Period Ended September 30, 2013)
(Amounts in Philippine Pesos)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	(63,008,481)	6,133,942
Adjustments for:		
Gain / (Loss) from sale of ASS	(928,053)	(3,859,300)
Depreciation and amortization	14,925,368	11,998,016
Punong bayan audit adjustments	5,976,767	-
Operating income before working capital changes	(43,034,399)	14,272,658
Decrease in loans and receivables	210,612,958	455,272,747
Decrease (Increase) in investment properties (RC	3,808,736	(3,582,322)
(Increase) in other resources	(86,366,325)	(203,052,262)
Increase in deposit liabilities	265,292,323	88,477,558
Increase in other liabilities	67,966,088	21,055,564
Cash from (used in) operations	418,279,381	372,443,943
Cash paid for income taxes	(2,450,579)	(1,745,427)
Net Cash From (Used In) Operating Activities	415,828,802	370,698,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	(73,867,214)	(38,291,485)
Decrease in available-for-sale securities	8,158,909	6,859,300
Net Cash From (Used) in Investing Activities	(65,708,305)	(31,432,185)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of dividends	-	-
Issuance of capital stock	-	-
Net Cash Used in Financing Activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	350,120,497	339,266,331
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and other cash items	127,556,153	122,574,664
Due from Bangko Sentral ng Pilipinas	602,895,583	225,855,077
Due from other banks	196,418,818	112,890,196
	926,870,554	461,319,937
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	96,581,720	85,010,417
Due from Bangko Sentral ng Pilipinas	1,032,550,503	548,976,596
Due from other banks	147,858,827	166,599,256
	1,276,991,050	800,586,269

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Period Ended September 30, 2014
(With Comparative Figures for the Period Ended September 30, 2013)
(Amounts in Philippine Pesos)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	(63,008,481)	6,133,942
Adjustments for:		
Gain / (Loss) from sale of ASS	(928,053)	(3,859,300)
Depreciation and amortization	14,925,368	11,998,016
Punong bayan audit adjustments	5,976,767	-
Operating income before working capital changes	(43,034,399)	14,272,658
Decrease in loans and receivables	210,612,958	455,272,747
Decrease (Increase) in investment properties (RO	3,808,736	(3,582,322)
(Increase) in other resources	(86,366,325)	(203,052,262)
Increase in deposit liabilities	265,292,323	88,477,558
Increase in other liabilities	67,966,088	21,055,564
Cash from (used in) operations	418,279,381	372,443,943
Cash paid for income taxes	(2,450,579)	(1,745,427)
Net Cash From (Used In) Operating Activities	415,828,802	370,698,516
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	(73,867,214)	(38,291,485)
Decrease in available-for-sale securities	8,158,909	6,859,300
Net Cash From (Used) in Investing Activities	(65,708,305)	(31,432,185)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of dividends	-	-
Issuance of capital stock	-	-
Net Cash Used in Financing Activities	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	350,120,497	339,266,331
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD		
Cash and other cash items	127,556,153	122,574,664
Due from Bangko Sentral ng Pilipinas	602,895,583	225,855,077
Due from other banks	196,418,818	112,890,196
	926,870,554	461,319,937
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	96,581,720	85,010,417
Due from Bangko Sentral ng Pilipinas	1,032,550,503	548,976,596
Due from other banks	147,858,827	166,599,256
	1,276,991,050	800,586,269

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(Amounts in Philippine Pesos)

1 CORPORATE INFORMATION

Citystate Savings Bank, Inc. (the "Bank") was incorporated in the Philippines on May 20, 1997. The Bank obtained a thrift bank license from the Bangko Sentral ng Pilipinas ("BSP") on August 7, 1997 and started operations as such on August 8, 1997. The Bank's common shares were listed in the Philippine Stock Exchange ("PSE") on November 14, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi - banking functions. The Bank has 28 branches and 31 on-site and 8 off-site automated teller machines strategically located in key cities and municipalities within Metro Manila and provincial areas.

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 2013 that are Relevant to the Bank

In 2013, the Bank adopted for the first time the following new PFRS, revision, annual improvements, and amendments to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1,2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)

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

(i) PAS 1 (Amendment), Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss, and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Bank applied the amendment retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised 2011), Employee Benefits (effective from January 1, 2013). This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Bank has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative amounts disclosed in prior years and adjusted the cumulative effect of the changes against the 2012 and 2011 balances of the affected asset, liabilities, and equity components.

(iii) PFRS 7(Amendment), Financial Instruments: Disclosures - Offsetting of Financial Assets and Financial Liabilities (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, Financial Instruments: Presentation. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position.

(iv) PFRS 13, Fair Value Measurement (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. This new standard applies prospectively from annual period beginning January 1, 2013, hence disclosure requirements need not be presented in the comparative information in the first year of application.

(v) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Bank:

(a) PAS 1 (Amendment), Presentation of Financial Statements - Clarification of the Requirements for Comparative Information. The amendment clarifies that a statement of financial position as at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosure of certain specified information in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, related notes to the third statement of financial position are not required to be presented.

(b) PAS 16 (Amendment), Property, Plant and Equipment - Classification of Servicing Equipment. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Bank's financial statements since the Bank does not have servicing equipment used in its operation.

(c) PAS 32 (Amendment), Financial Instruments - Presentation - Tax Effect of Distributions to Holders of Equity Instruments. The amendment clarifies that the consequences of income tax relating to distribution to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, Income Taxes. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Bank's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

(d) PAS 34 (Amendment), Interim Financial Reporting and Segment Information for Total Assets and Liabilities (effective from January 1, 2013). This standard clarifies the requirements on segement information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, Operating Segments. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. This amendment has no impact on the financial statements both in the annual and interim reporting since the Bank has no reportable segment.

(b) Effective in 2013 that are not Relevant to the Bank

The following PFRS, amendments, revisions, annual improvements and interpretation to existing standards are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Bank's financial statements:

PFRS 1(Amendment)	: First-time Adoption of PFRS -- Government Loans
PFRS 10	: Consolidated Financial Statements
PFRS 11	: Joint Arrangements
PFRS 12	: Disclosure of Interests in Other Entities
PAS 27 (Revised)	: Separate Financial Statements
PAS 28 (Revised)	: Investments in Associates and Joint Ventures
PFRS 10, 11 and 12 (Amendments)	: Amendments to PFRS 10, 11 and 12-- Transition Guidance to PFRS 10, 11 and 12
Annual Improvement (2009-2011 Cycle) PFRS 1 (Amendment)	: First-time Adoption of PFRS -- Repeated Application of PFRS 1 and Borrowing Costs
Philippine Interpretations International Financial Reporting Interpretation Committee 20	: Stripping Costs in the Production Phase of a Surface Mine

(c) Effective Subsequent to 2013 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretation to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 19 (Amendment), Employee Benefits-Defined Benefit Plans -- Employee Contributions(effective from January 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. Management has initially determined that this amendment will have no impact on the Bank's financial statements.

(ii) PAS 32 (Amendment), Financial Instruments: Presentation - Offsetting Financial Assets and Liabilities (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to 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 the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Bank does not expect this amendment to have a significant impact on its financial statements.

(iii) PAS 36 (Amendment), Impairment of Assets - Recoverable Amount Disclosures for Non-financial Assets (effective form January 1, 2014). The amendment clarifies that the requirement for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on the fair value less cost of disposal. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements if the resulting impact of the amendment will be applicable.

(iv) PAS 39 (Amendment), Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective from January 1, 2014). 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 it applies hedge accounting, the amendment will not have an impact on its financial statements.

(v) PFRS 9, Financial Instruments: Classification and Measurement. This is the first part of a new standard on financial instruments that will replace PAS 39, Financial Instruments: Recognition and Measurement, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value.

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 arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Bank does not expect to implement and adopt PFRS 9 until all phases have been completed. However, management is currently assessing th implications of PFRS 9 on the Bank's financial statements and evaluating the need to conduct a comprehensive study of the potential impact and changes that may result from the adoption of this standard when it becomes effective.

(vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Bank but management does not expect a 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 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, through a revision only 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 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.

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 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.

(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.

Loans and receivables also include Securities Purchased Under Reverse Repurchase Agreement (SPURRA) wherein the Bank enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP.

(b) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

(c) 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 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.

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 e 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) 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) 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) Reserves on the 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 current 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) Classifying Financial Assets as Held-to-maturity Investments

In classifying non-derivative financial assets 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.

(b) 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.

(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 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.

(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 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.

(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.

(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.

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 September 30, 2014 and December 31, 2013, the Bank has deposits considered as mandatory reserves with the BSP totaling P1,032.55 billion and P602.90 million, 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:

	2014	2013
Time	85,162,180.42	136,026,861.00
Savings	62,696,646.72	60,391,957.00
	147,858,827.14	196,418,818.00

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:

	2014	2013
Government debt securities:		
Unquoted	42,400,000.00	46,000,000.00
Quoted	31,621,005.18	34,179,914.00
Quoted proprietary club shares	13,070,000.00	15,070,000.00
	87,091,005.18	95,249,914.00

Quoted government debt securities include debt securities issued by the Republic of the Philippines. These securities will mature in various dates within 2015 to 2018.

Unquoted debt securities amounting to P42.4 million and P46.0 million as of September 30, 2014 and December 31, 2013, 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:

	2014	2013
Receivables from customers	1,726,875,664.45	1,908,147,195.00
Sales contract receivables	62,737,572.35	71,940,686.00
SPURRA	-	-
Other receivables	38,290,722.10	49,594,377.00
	1,827,903,958.90	2,029,682,258.00
Unearned interests, discounts and other charges	(14,090,717.72)	(19,919,205.00)
Allowance for impairment	(43,416,968.58)	(28,753,822.00)
	1,770,396,272.60	1,981,009,231.00

11 BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

	Land	Bank Premises	Office Furniture, Fixtures and Equipment	Leasehold Improve-ments	Total
September 30, 2014					
Cost	127,490,101.99	144,471,477.62	139,170,901.27	22,656,382.51	433,788,863.39
Accumulated depreciation and amortization	-	(41,042,728.66)	(99,467,493.43)	(11,199,139.81)	(151,709,361.90)
Net Carrying Amount	127,490,101.99	103,428,748.96	39,703,407.84	11,457,242.70	282,079,501.49
December 31,2013					
Cost	99,656,485.00	124,396,533.00	121,385,196.00	20,066,421.00	365,504,635.00
Accumulated depreciation and amortization	-	(36,920,585.00)	(93,882,632.00)	(11,563,763.00)	(142,366,980.00)
Net Carrying Amount	99,656,485.00	87,475,948.00	27,502,564.00	8,502,658.00	223,137,655.00

Depreciation and amortization expenses amounting to P14.9 million for the period ended September 30, 2014 and P12 million for the period ended September 30, 2013 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 September 30, 2014, the Bank has satisfactorily complied with this BSP requirement.

12 INVESTMENT PROPERTIES

	Land	Building	Total
September 30, 2014			
Cost	17,433,054.30	10,101,296.13	27,534,350.43
Accumulated depreciation	-	(4,250,471.27)	(4,250,471.27)
Allowance for impairment	(550,089.75)	-	(550,089.75)
Net Carrying Amount	16,882,964.55	5,850,824.86	22,733,789.41
December 31,2013			
Cost	17,433,054.00	13,618,758.00	31,051,812.00
Accumulated depreciation	-	(3,959,198.00)	(3,959,198.00)
Allowance for impairment	(550,089.00)	-	(550,089.00)
Net Carrying Amount	16,882,965.00	9,659,560.00	26,542,525.00

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P2.31 million and P1.70 million for the period ended September 30, 2014 and 2013, 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:

	2014	2013
Non-financial assets - net	209,186,940.94	146,625,005.00
Computer software - net	46,647,789.01	20,583,839.00
Branch licenses	32,500,000.00	32,500,000.00
Sundry debits	19,523,843.64	17,491,194.00
Prepaid expenses	8,836,876.24	6,308,581.00
Security deposits	6,702,768.33	6,955,127.00
Stationery and supplies on hand	6,611,725.12	6,416,151.00
Deferred tax assets - net	4,642,800.00	5,683,937.00
Deposit withPhilippine Clearing House Corp (PCHC)	2,500,000.00	2,500,000.00
Advance rental	2,278,293.20	2,270,959.00
Documentary stamps	541,780.00	524,732.00
Building under construction	-	-
Bancnet	500,000.00	500,000.00
Utility deposit	410,891.69	410,892.00
Other investments	153,333.00	153,333.00
Advances to suppliers	5,000.00	5,000.00
Returned checks	-	3,197,453.00
Miscellaneous	2,602,476.97	5,151,990.00
	343,644,518.14	257,278,193.00

Non-financial assets include foreclosed vehicles and jewelry items formerly classified as real and other properties acquired (ROPA) .As per BSP classification, ROPA which are neither held for capital appreciation, leased out or used in operation, shall be classified as other non-financial asset, accounted for using cost model, subject to periodic depreciaiton and annual impairment testing.

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% t0 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.

	2014	2013
Philippine Peso	2,860,699,250.88	2,595,245,648.00
US Dollars	84,190,636.72	84,351,917.00
	2,944,889,887.60	2,679,597,565.00

15 OTHER LIABILITIES

The balance of this account consists of the following:

	2014	2013
Accounts payable	81,388,556.65	28,511,108.00
Accrued expenses	26,310,057.68	20,627,899.00
Cashier's and manager's checks	20,967,437.66	4,271,939.00
Sundry credits	8,152,189.07	209,342.00
Security deposits	1,007,095.08	1,280,059.00
Bills purchased clearing	-	878,425.00
Due to BSP banking fees	-	-
Bills payable - BSP	-	-
Post employment benefit obligation	-	14,111,947.00
Miscellaneous	101,389.98	69,919.00
	137,926,726.12	69,960,638.00

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 September 30, 2014 and December 31, 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 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

Under an existing BSP circular, thrift banks are required to comply with the minimum capital requirements amounting to P400.0 million.

As of September 30, 2014, the Bank has complied with the above capitalization requirement.

17 MISCELLANEOUS INCOME AND OTHER OPERATING EXPENSES

Presented below are the details of these accounts:

17.1 Miscellaneous Income

	2014	2013
Gain from assets acquired/exchanged	4,064,503.73	2,567,869.51
Penalty on Loans	2,505,812.85	1,910,303.76
Income or loss - Trust dept	1,125,968.58	1,225,601.53
Trading gain / (loss)	(92,941.02)	-
Others	10,239,034.40	8,795,528.19
	17,842,378.54	14,499,302.99

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 Other Expenses

	2014	2013
Stationery and supplies used	3,124,269.16	2,841,596.37
Representation and entertainment	2,642,395.51	2,441,530.72
Management & other professional fees	2,069,238.41	1,559,985.64
Travelling expenses	1,597,570.48	990,258.02
Banking fees	769,233.67	594,878.68
Amortization of computer software	525,923.18	456,219.40
Advertising and publicity	501,890.49	702,165.55
Commission fees	170,762.12	156,387.90
Freight fees	63,714.92	59,033.28
Periodicals and magazines	21,022.00	49,070.00
Information technology	15,904.00	31,163.34
Provision for year-end expenses		
Membership fees and dues	1,556.70	13,000.02
Others	8,059,153.22	7,268,810.89
	19,562,633.86	17,164,099.81

18 TAXES

18.1 Gross Receipts Tax (GRT)

On January 29, 2004, Republic Act 9238 reverted the imposition of GRT on banks and financial institutions. This law is retroactive from January 1, 2004. Further, on May 24, 2005, the amendments on RA No. 9337 was approved imposing the following rates to be collected on gross receipts derived from sources in the Philippines by all banks and non-bank financial intermediaries:

(a)	On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:	
	With maturity period of five years or less	0.05
	With maturity period of more than five years	0.01
(b)	On dividends and equity shares in the net income of subsidiaries	0
(c)	On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the National Internal Revenue Code	0.07
(d)	On net trading within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments	0.07

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

18.2 Documentary Stamp Tax (DST)

DST at rates ranging from P0.30 to P2 on each P200 of the face value of the certificate or document are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promisory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt

On February 7, 2004, RA 9243 was passed amending the rates of DST, the significant provisions of which are summarized below:

(a) On every issue of debt instruments, there shall be collected DST of P1 on each P200 or fractional part of the issue price of any such debt instrument;

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of P0.75 on each P200, or fractional part, of the par value of such stock;

(c) On all bills of exchange or drafts, there shall be collected DST of P0.30 on each P200, or fractional part, of the face value of any such bill of exchange or draft; and,

(d) The following instruments, documents and papers shall be exempt from DST:

Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

Loan agreements or promisory notes, the aggregate of which do not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA 9243;

Fixed income and other securities traded in the secondary market or through an exchange;

Derivatives including repurchase agreements and reverse repurchase agreements;

Bank deposit accounts without a fixed term or maturity; and,

Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

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

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 include P8.5 million investments in the shares of stock of the Bank; 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 P6.7 million and P7.0 million as of September 30, 2014 and December 31, 2013, 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 profit or loss.

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 P20.67 million for the period ended September 30, 2014 and P20.38 million for the period ended September 30, 2013.

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 P2.31 million and P1.70 million for the period ended September 30, 2014 and September 30, 2013, 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 September 30, 2014, 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 September 30, 2014 and December 31, 2013.

	2014	2013
Trust and Agency Accounts	220,084,447.44	216,459,791.50
Others	1,998,269.94	1,628,410.00

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 SEPTEMBER 30, 2014

Accountee	Below 60 days	61 to 180 days (Substandard)	181 to 360 days (Doubtful)	361 days or more (Loss)	TOTAL
HEAD OFFICE	7,434,441.13	1,672,536.15	2,453,514.91	4,333,180.84	15,893,673.03
CHINO ROCES BRANCH	-	-	15,736.32	305,632.56	321,368.88
BINONDO BRANCH	-	-	-	-	-
PANADEROS BRANCH	2,040.00	-	-	-	2,040.00
PACO BRANCH	4,500.00	-	-	-	4,500.00
GUADALUPE BRANCH	-	-	-	-	-
MABINI BRANCH	5,000.00	-	-	-	5,000.00
BACLARAN BRANCH	-	-	-	-	-
PASAY BRANCH	8,397.26	-	-	-	8,397.26
SHAW BRANCH	-	-	-	1,040.84	1,040.84
CUBAO	-	-	-	-	-
MUNTINLUPA	2,879.70	4,548.61	-	-	7,428.31
CALOOCAN	-	-	-	-	-
MARIKINA	6,000.00	-	-	-	6,000.00
BLUMENTRITT	6,000.00	-	-	-	6,000.00
LAS PIÑAS	13,801.37	-	-	-	13,801.37
GREENHILLS	-	-	-	-	-
PASAY ROAD	-	-	-	-	-
ANTIPOLO	3,000.00	-	-	-	3,000.00
KATIPUNAN	3,000.00	-	-	-	3,000.00
TAGUIG	-	-	-	-	-
DAGUPAN	1,052.00	-	-	-	1,052.00
BALIUAG BRANCH	-	-	-	-	-
MEYCAUYAN BRANCH	649.00	-	-	-	649.00
PLARIDEL	480.00	-	-	-	480.00
CEBU BRANCH	5,000.00	-	-	-	5,000.00
TOTAL	**7,496,240.46**	**1,677,084.76**	**2,469,251.23**	**4,639,854.24**	**16,282,430.69**