

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended June 30, 2014
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)
7. Address of issuer's principal office Citystate Centre Building, 709 Shaw Boulevard, Pasig City 1600
Postal Code
8. Issuer's telephone number, including area code (632) 470-3333
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
<u>Common Stock</u>	<u>72,764,998</u>

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

Yes [] No []

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

Philippine Stock Exchange Common Stock

12. Indicate by check mark whether the registrant:

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

Yes [] No []

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

Yes [] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

- a) Consolidated Statements of Condition as of June 30, 2014 and December 31, 2013;
- b) Consolidated Statements of Income and Expenses for the quarter ended June 30, 2014 (with comparative figures for the same period ended June 30, 2013);
- c) Consolidated Statements of Income and Expenses for the six months ended June 30, 2014 (with comparative figures for the same period ended June 30, 2013);
- d) Consolidated Statements of Changes in Equity for the quarter ended June 30, 2014 (with comparative figures for the period ended June 30, 2013);
- e) Consolidated Statement of Cash Flow for the period ended June 30, 2013 (with comparative figures for the quarter ended June 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 June 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 June 30, 2014

Interest Income

Total gross interest income decreased by 23.54% after six months of operation in the amount of P106.122 million against last year's P138.801 million. This was mainly due to the 26.74% decrease in Loans and Receivables, which dropped from P130.710 million to P95.757 million brought about by the decrease in interest income on Jewelry loans. However, Due from BSP and Other Banks rose to P5.958 million this year from P3.964 million last year ; while Available-for-sale securities increased to P1.881 million from P1.739 million. The aforementioned were comparative figures for the semesters ending June 30, 2014 and June 30, 2013.

Interest Expense

Interest Expense on Deposit Liabilities in the second quarter amounted to P6.410 million as compared to last year's figure of P7.110 million decreased by 9.84%. For the first semester, Interest Expense decreased by P1.805 million from P14.713 million last year to P12.908 million. The Interest Expense of P12.908 million is 12.16% of the Interest Income of P106.122 million.

Other Income/Expenses

Other Income generated after two quarters amounted to P20.340 million as compared to the P17.012 million generated over the same period last year. This is a result of a significant increase in Miscellaneous Charges from P8.544 million to P11.362 million due to gain on sale of ROPA. Likewise, Service Charges and Fees slightly increased from P8.468 million to P8.978 million.

The Bank's Other Expenses increased to P140.493 million from P130.975 million after six months of operation. This is mainly due to the increase in Employee Benefits which jumped to P52.346 million from P48.650 million as the number of employees increased. Occupancy slightly increased by P0.685 million from P13.397 million to P14.082 million due to escalation rate in rental of some of our branches. Security, Janitorial and Messengerial Services also increased by P0.802 million from P14.789 million to P15.591 million this year due to additional security services for the newly opened branches. Communication, Light and Water increased by P2.359 million from P11.463 million last year to P13.822 million this year due to Reuter and Ethernet connection expenses of the newly opened Batangas branch. Insurance inched higher to P6.647 million this year from P6.191 million last year.

On the other hand, Taxes and Licenses went down to P6.815 million from P7.902 million for a 13.76% decrease. Likewise, Depreciation and Amortization increased by 27.29% from P7.132 million to P9.809 million. Litigation/Assets acquired decreased by P0.935 million from P2.645 million last year to P1.710 million this year. Fuel and Oil also increased from P5.033 million last year to P5.277 million this year.

Net Income/Loss

The Bank recorded a net loss of P55.195 million as compared to last year's semestral net income of P8.952 million. This was mainly due to adjustment in Loan/Loss Reserve in compliance with regulatory requirement and acquisition of properties for the establishment of new branches.

Total Resources

The bank's Total Resources increased to P3.626 billion or 3.30% higher versus P3.510 billion from 2013 year-end level. Due from Bangko Sentral ng Pilipinas went up by 37.55% from P602.895 million year-end balance to P829.302 million this quarter. Available for Sale Securities slightly decreased by 5.08% or P4.837 million. Other Resources increased by 26.87% from P257.278 million year-end balance to P326.409 million this quarter and Bank Premises, Furniture, Fixtures and Equipment was higher by 25.96% from P223.138 million at year end to P281.077 million this quarter. Due from Other Banks decreased by 21.64%. On the other hand, Cash and Other Cash Items declined by 24.37% or P31.081million from P127.556 million year-end balance to P96.475 million this quarter. Meanwhile, Loans and Receivables were recorded at P1.825 billion lower by 7.87% or P156 million against year-end balance of P1.981 billion. Likewise, Investment Properties decreased by 13.40%.

Total Deposit Liabilities

Deposits generated by the bank's twenty-eight (28) branches increased by P142 million from P2.680 billion year-end balance to P2.822 billion at the end of second quarter of 2014. Of this amount, P2.102 billion or 74.48% comprised savings deposits while the remaining 25.52% or P720.623 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 P2.822 billion is 96.88% of the Total Liabilities and 77.83% of the Total Liabilities and Equity.

Other Liabilities

This account increased by 29.78% from P69.961 million to P90.799 million for the second quarter of 2014. The ending balance of P90.799 million is 3.12% of the total liabilities.

Capital Funds/Equity

Capital Funds/Equity decreased by P48.024 million from P760.530 million year-end balance to P712.506 million at the end of second quarter of 2014.

Sources of Funds

Deposit generation provided the main source of loanable funds as Deposit Liabilities increased by 5.30% to P2.822 billion from P2.680 billion after six months of operation. 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 <i>June 2014</i>	Industry <i>March 2014</i>
<u>Capital Adequacy</u>		
Capital to Risk Assets Ratio	32.50%	14.95%
<u>Asset Quality</u>		
Non-Performing Loan (NPL) Ratio	2.92%	4.94%
Non-Performing Loan (NPL) Cover	90.56%	71.36%
<u>Liquidity</u>		
Loans to Deposit	68.56%	85.62%
<u>Profitability</u>		
Return on Average Equity	-7.06%	6.85%
Net Interest Margin	7.73%	5.28%
<u>Cost Efficiency</u>		
Cost to Income	123.72%	67.35%

In terms of stability, the bank continues to benefit from a higher Capital Adequacy Ratio (CAR) of 32.50% versus the industry ratio of 14.95%. The bank's NPL ratio of 2.92% surpassed the industry's 4.94% as it continues to be highly selective in its lending operation and improve on loan collection. Allowance for Probable Losses over Non-performing loans is higher at 90.56% versus the industry's 71.36%.

The bank's loan to deposit ratio of 68.56% 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 (7.06%), lower than the industry of 6.85%. Its Net Interest Margin is lower at 7.73% 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: $\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
Non-performing Loan (NPL) Ratio	$\frac{\text{Non-performing Loans}}{\text{Gross Loans}}$
Non-performing Loan (NPL) Cover	$\frac{\text{Allowance for Probable Losses}}{\text{Non-performing Loans}}$
Loans to Deposits Ratio	$\frac{\text{Total Loans}}{\text{Total Deposits}}$
Return on Average Equity	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
Net Interest Margin	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
Cost to Income	$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$

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

	June 2014	June 2013
1. Liquidity Ratio	0.38:1	0.33:1
2. Solvency Ratios		
a) current ratio	0.38:1	0.33:1
b) current liabilities to net ratio	4.06:1	2.53:1
3. Debt-to-equity ratio	4.09:1	2.55:1
4. Asset-to-equity ratio	5.09:1	3.55:1
5. Interest rate Coverage ratio	-4.16:1	0.69:1
6. Profitability Ratio		
a) Return on Asset Ratio	-1.49%	0.54%
b) Return on Net Worth Ratio	-7.58%	1.90%