2014 Audited Financial Statements

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT SECTOR
CLUSTER 1—BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Philippine Postal Savings Bank, Inc.
Liwasang Bonifacio, Manila

We have audited the accompanying financial statements of **Philippine Postal Savings Bank, Inc.**, a subsidiary of the Philippine Postal Corporation, which comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Managements is resposible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, and so much internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of experssing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Loans and receivables amounting to P2.128 billion were carried at diminishing cost instead of amortized cost using the effective interest method contrary to paragraph 9 of Philippine Accounting Standards (PAS) 39, thereby affecting the fair presentation of the account in the financial statements.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Philippine Postal Savings Bank, Inc.** as at December 31, 2014, and its financial performance and its cash flows for the year ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basis financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Philippine Postal Savings Bank, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

EDUARDO D. PADERNAL
Supervising Auditor

June 10, 2015

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014 (AUDITED)
(In Philippine Peso)

	NOTE	2014	2013 AS RESTATED
RESOURCES			
Cash and Cash Equivalents	6	126,179,706	97,962,652
Due from Bangko Sentral ng Pilipinas	7	2,908,218,350	923,989,583
Due from Other Banks	8	116,636,833	121,955,584
Loans and Receivables (net)	9	5,320,245,441	4,081,422,352
Available for Sale Financial Assets	10	133,289,740	134,696,666
Held to Maturity Financial Assets	11	0	1,219,367,341
Unquoted Debt Securities Classified as Loans	12	97,156,329	297,170,944
Bank Premises, Furniture, Fixtures and Equipment (net)	13	212,391,737	82,652,944
Non-Current assets held for sale	14	54,203,360	0
Investment Property	15	46,413,973	82,292,678
Sales contract receivable	16	24,985,149	47,465,259
Other Resources	17	112,173,593	130,893,355
TOTAL RESOURCES		**9,151,894,211**	**7,219,869,358**
LIABILITIES AND EQUITY			
Deposit Liabilities	18		
Savings		7,289,170,896	5,806,601,528
Time		248,929,704	179,781,039
Demand		418,342,277	399,378,014
Manager's / Cashier's Checks		29,586,022	9,263,830
Unearned Income and Other Deferred Credits		256,805	13,620,413
Accrued Taxes and Other Expenses	19	101,906,250	73,479,810
Other Liabilities	20	88,143,604	80,572,615
TOTAL LIABILITIES		**8,176,335,558**	**6,562,697,249**
EQUITY		**975,558,653**	**657,172,109**
TOTAL LIABILITIES AND EQUITY		**9,151,894,211**	**7,219,869,358**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2014 (AUDITED)
(In Philippine Peso)

	NOTE	2014	2013 AS RESTATED
INTEREST INCOME			
Interest / Discount Earned on Loans & Discounts		553,197,287	394,027,863
Interest on Investments		23,643,607	97,558,945
Interest Income–Loans and Receivables arising from RA/CA/PR/SLB		0	793,100
Interest on Due from Bangko Sentral ng Pilipinas		34,165,691	16,052,491
Interest on Deposits with Banks		521,195	1,202,905
Interest Income on Sales Contract Receivable		2,198,470	1,946,750
Others		137	0
		613,726,387	511,582,054
INTEREST EXPENSE			
Interest on Deposit Liabilities		101,002,887	106,965,258
Provision for Losses on Accrued Interest Income		3,633,111	1,734,527
		104,635,998	108,699,785
NET INTEREST INCOME		**509,090,389**	**402,882,269**
OTHER INCOME			
Fees and Commisison Income		35,798,314	45,172,832
Gain/Loss from Sale/Derecognition of Non-Financial Assets		13,333,223	6,478,342
Gain on Financial Assets and Liabilities Held for Trading		1,687	80,571
Gain from Sale/Redemption/Derecognition of Non-Trading Financial Assets & Liabilities		114,254,205	42,207,714
Foreign Exchange (Loss) / Gain		17,970	321,470
Recovery on Charged-off Assets		225,592	6,000
Miscellaneous Income	25	18,841,193	23,247,966
OPERATING EXPENSES	26	**522,144,763**	**438,343,125**
NET INCOME BEFORE TAX		**169,417,810**	**82,054,039**
PROVISION FOR INCOME TAX		**46,282,752**	**16,532,125**
NET INCOME AFTER TAX		**123,135,058**	**65,521,914**
OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized Gain on available for Sale Securities		24,243,486	(30,961,783)
TOTAL COMPREHENSIVE INCOME		**147,378,544**	**34,560,131**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014 (AUDITED)
(In Philippine Peso)

		Capital Stock	Other Comprehensive Income	Retained Earnings Unappropriated	Total Equity
	NOTE	21		22	
Balance January 1, 2013		**589,234,883**	**41,572,123**	**(48,523,458)**	**682,283,548**
Issuance of Capital Stock		40,000,000			40,000,000
Unrealized Gains on Available for Sale SecuWrities			(30,961,783)	0	(30,961,783)
Prior period adjustments				328,430	328,430
		629,234,883	**10,610,340**	**(48,195,028)**	**591,650,195**
Net income, 2013 before restatement				64,425,703	64,425,703
Adjustment on Foreign Exchange Profit (Loss)				(3,434)	(3,432)
Proceeds from insurance typhoon Yolanda				1,099,643	1,099,643
Net Income, 2013 as restated				**65,521,914**	**65,521,914**
Balance, December 31, 2013 as restated		**629,234,883**	**10,610,340**	**17,326,886**	**657,172,109**
Issuance of Capital Stock		171,008,000			171,008,000
Unrealized gain on available for sale securities			24,243,486		24,243,486
Net Income, 2014				123,135,058	123,135,058
Balance, December 31, 2014		**800,242,883**	**34,853,826**	**140,461,943**	**975,558,653**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014 (AUDITED)
(In Philippine Peso)

	NOTE	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Deposit from clients		1,570,682,295	983,623,609
Interest income, fees and commission received		665,676,920	584,841,480
Release/collection of loans and receivables		(1,313,462,162)	(1,417,918,251)
Fund advances/collection to customers		(3,190,764)	(3,235,660)
Profit from sale/redemption of investments		114,254,205	42,207,714
Recoveries on loans previously written off		225,592	6,000
Income from assets held for trading		1,687	80,571
Proceeds/withdrawal to BSP for regulatory or monetary control purposes		(1,984,228,767)	(339,799,105)
Cash payments to suppliers		(156,829,880)	(89,780,092)
Cash payments to employees		(201,809,316)	(175,866,265)
Interest and finance charges		(95,486,731)	(109,027,280)
Prepaid taxes, licenses and other expenses		5,083,616	67,013,044
Cleared/returned checks and other cash items		(5,119,825)	(780,781)
Payment of/proceeds from sale of financial assets		25,650,411	268,733,046
Payments/proceeds of unidentified cleared checks		10,019,095	(6,882,714)
Payment of taxes		(83,715,910)	(32,900,544)
Collection/payments of prior period expenses		0	(137,170,235)
Payment of litigation/asset acquired expenses		(11,641,556)	(8,243,130)
Transfer of funds from regional branches		5,017,553	37,910,977
Net cash provided/used in operating activities		**(1,429,290,946)**	**(337,187,617)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase/sale of non dealing securities/HTM		1,219,367,341	77,212,409
Purchase/sale of unquoted debt securities classified as loans		200,014,615	180,480,991
Rental income		6,760	15,243
Proceeds/payment from sale thru dacion of real and other properties acquired (ROPA)		4,155,455	21,966,237
Acquisition of property and equipment		(19,387,364)	(26,430,903)
Profit (loss) from asset sold/acquired		13,333,223	6,478,343
Net cash provided by investing activities		**1,417,490,030**	**259,722,319**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares		40,000,000	40,000,000
Net cash provided by financing activities		**40,000,000**	**40,000,000**
Effects of exchange rate changes on cash and cash equivalents		17,970	324,902
NET INCREASE IN CASH AND CASH EQUIVALENTS		**28,217,054**	**(37,140,396)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**97,962,652**	**135,103,048**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**6**	**126,179,706**	**97,962,652**

Notes to Consolidated Financial Statements

1. GENERAL INFORMATION

The Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Philippine Postal Corporation (PPC) re-established and re-opened by virtue of PPC Board Resolution No.94-34 dated February 24, 1994 in fulfillment of the intents and purposes of R.A. No. 7354, otherwise known as Postal Service Act of 1992, which was enacted by the Congress on April 03, 1992. The re-establishment of PPSBI was finally approved under the Bangko Sentral ng Pilipinas Board Resolution No. 267 dated March 18, 1994. The Bank was incorporated on June 22, 1994 and started operations as a savings and mortgage bank on July 21, 1994. As stated in its Vision/Mission: "The Bank shall mobilize savings and promote entrepreneurship to widen economic opportunities and to provide the Filipino people with a full range of professional banking and financial resources accessible in all areas of the country, and shall promote the values of thrift, industry and prudence especially in the youth."

Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

As of December 31, 2014, the Bank had 438 employees and operated 25 branches and six Micro Banking Offices (MBO), namely:

Northern Luzon Area:

1. Tuguegarao, Cagayan Branch
2. Baguio Branch
3. Asingan, Pangasinan Branch
4. Dagupan, Pangasinan Branch
   a. MBO Binmaley
   b. MBO Mapandan
5. San Fernando, La Union Branch
6. Tarlac Branch

Metro Luzon Area:

1. Head Office-Liwasang Bonifacio, Manila
2. Mabalacat, Pampanga Branch
3. Malolos, Bulacan Branch
4. San Pablo, Laguna Branch
5. Lipa City, Batangas Branch

Southern Luzon Area:

1. Naga, Camarines Sur Branch
   a. MBO Bula
   b. MBO Bombon
2. Tigaon, Camarines Sur Branch
3. Legaspi,Albay Branch
   a. MBO Bacacay
   b. MBO Malinao
4. Sorsogon Branch

Visayas Area:

1. Tacloban, Leyte Branch
2. Tagbilaran, Bohol Branch
3. Iloilo Branch
4. Himamaylan, Negros Occidental Branch
5. Cebu Branch
6. Bacolod Branch

Mindanao Area:

1. Davao Branch
2. Zamboanga Branch
3. Cagayan de Oro Branch
4. Manolo Fortich, Bukidnon Branch

2, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statement Preparation

The Bank's consolidated financial statements have been prepared in accordance with the applicable accounting principles generally accepted in the Philippines and as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). These financial statements are prepared on the historical cost basis modified by the fair value measurement of financial assets on Available for Sale Securities. The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The preparation of financial statement requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The accounting policies adopted are consistent with those of the previous years.

2.2 Foreign Currency Translation

Foreign currency transactions are accounted for and revalued monthly using the month-end Philippine Dealing and Exchange System (PDEX) closing rate. Foreign exchange differences arising from the revaluation are charged to operations.

2.3 Cash and Other Cash Items

For purposes of presentation in the consolidated statement of cash flows, Cash and other cash equivalents consist of cash and other cash items on hand.

2.4 Due From Other Banks

This account refers to the balances of funds deposited with other local banks to meet not only reserve requirements but also to cover operational requirements including payroll and tax requirements.

2.5 Financial Assets/Liabilities

In accordance with PAS 39-Financial Assets – Recognition and Measurement, the Bank's financial assets or financial liabilities are recognized initially at fair value. Subsequent to initial recognition, we continue to measure at fair value except for the loans and receivables, which are measured at amortized cost using the diminishing balance method. Gains and losses arising from changes in the fair values of available for sale financial assets are recognized directly in the equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss statement. Gain or loss arising from the change in fair value of Unquoted Debt Securities Classified as Loans and Held to Maturity Financial assets are recognized in profit or loss when the security is derecognized or impaired, and through the amortization process.

The Bank classifies its financial assets under the following categories:

a. Financial Assets Available for Sale (AFS)

Available for sale investments are those purchased and held indefinitely, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices.

b. Financial Assets Held to Maturity (HTM)

These are debt securities, quoted in an active market with fixed or determinable payments and fixed maturity for which the Bank has the positive intention and ability to hold until maturity.

c. Unquoted Debt Securities Classified as Loans

These are debt securities with fixed or determinable payments that are not quoted in an active market.

d. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: a) those that the Bank intends to sell immediately or in the near term, which shall be classified as High Frequency Trading (HFT) and those that the entity upon initial recognition designates as at fair value through profit or loss; b) those that the Bank designates as AFS upon initial recognition; or c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as AFS.

Regular loans (Loans to Gov't, Agri-Agra, Development Incentive, SME and microfinance, contract to sell and others) are carried in the books at its amortized cost or the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the diminishing balance method, minus any reduction –directly or through the use of an allowance account – for impairment or uncollectibility.

There are fees and other charges that are recognized immediately as income upon collection except for the advance interests, which are booked under Unearned Income account. Starting July 2014 the Bank started to use the Effective Interest Rate Method of calculating interest on new loans releases. Transactions costs were amortized over the life of the loan.

Past due loans and receivables are automatically carried on non-accrual basis. Interest incomes on such accounts are recognized only upon collection.

Unclassified Loans are loans that do not have a greater-than normal risk and do not possess the characteristics of classified loans as defined below:

a. Loans or portions thereof secured by holdouts on deposit/deposit substitutes maintained in the lending institution and margins deposits, or government-supported securities; and

b. Loans with technical defects and deficiencies in documentation and/or collateral requirements. These deficiencies are isolated cases where the exception involved are not material nor is the Bank's chance to be repaid or the borrower's ability to liquidate the loan in an orderly manner undermined. These exceptions should be brought to management's attention for corrective action during the examination and those are not corrected shall be included in the Report of Examination under "Miscellaneous Exceptions – Loan". Moreover, deficiencies which remained uncorrected in the following examination shall be classified as "Loans Especially Mentioned".

Classified Loans are loans which possess the characteristics outlined hereunder:

a. Loans Especially Mentioned are loans and advances that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

b. Substandard are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the institution because of unfavorable record or unsatisfactory characteristics. There exists in such loans the possibility of future loss to the institutions unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. Doubtful Loans are loans or portion thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

d. Loss are loans or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Based on the loan classification, an allowance for probable loss shall be set up as follows:

a. Specific Allowance

CLASSIFICATION	Allowance **(In percentage)**
a.1. Unclassified	0
a.2. Loans Especially Mentioned	5
a.3. Substandard	
i. Secured	10
ii. Unsecured	25
a.4. Doubtful	50
a.5. Loss	100

b. General Allowance.

In addition to the specific allowance for probable losses required under item "1", a general provision for loan losses is set up as follows:

b.1. Five percent of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws, rules and regulations.

b.2. One percent of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws, rules and regulations.

The excess of booked general loan loss provisions over the amount required as a result of the reduction of the amount required to be set up to one percent shall first be applied to unbooked specific valuation reserves, whether authorized to be booked on a staggered basis or not and only the remainder can be considered as income.

As a general rule, past due accounts shall refer to all accounts of the Bank under its loan portfolio which are not paid at maturity.

a. The following shall be considered as past due:

a.1. Loan receivable payable on demand not paid on the date indicated on the demand letter, or within three months from the date of grant, whichever comes earlier;

a.2. Bills discounted and time loans, whether or not representing availments against a credit line, not paid on the respective maturity dates of the promissory notes;

a.3. Bills and other negotiable instruments purchased, if dishonored upon presentment for acceptance/payment or not paid on maturity date, whichever comes earlier: provided, however, that an out-of-town check and a foreign check shall be considered as past due if outstanding for 30 days and 45 days, respectively, unless earlier dishonored; and

a.4. Loans or receivables payable in installments where the number of installment in arrears fall under the following:

Mode of Payment	Minimum No. of Installment in Arrears
Monthly	3
Quarterly	1
Semestral	1
Annual	1

Provided, however, that when the total amount of arrearages reaches 20 per cent of the total outstanding balance of the loan/ receivable, the total outstanding balance of the loan/receivable shall be considered as past due, regardless of the number of installment in arrears.

Provided, further, that for modes of payment other than those listed above (e.g., daily, weekly, semi-monthly), the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10 percent of the total loan/receivable balance.

b. Reclassification of loan accounts to past due status shall be effected on the banking day immediately following the date when any of the preceding conditions has been reached. In determining the total number of days past due, the relevant time period is reckoned as follows:

Payment Type	Reclassification Date
Lump sum (single)	From maturity date to payment date
payment Amortized	From date of first default to payment date

c. If a borrower has past due obligations, the Bank may declare the borrower's other current obligation as due and demandable.

d. The decision to proceed with the collection of outstanding obligations in current status as well as the suspension of credit lines shall rest with the same approving authority which approved the loan.

e. When the account turned past due, real estate tax and insurance premium shall be updated by the lending unit concerned if the client fails to pay such obligations.

f. A grace period of 30 days is given to clients after the due date where no penalty charges shall be imposed.

g. Past due interest shall be computed on loans considered past due. Interest on past due loans (amortized) before the maturity date shall be computed as is using the interest rate indicated in the PN. Interest on the past due loans after the maturity date shall be computed using the interest rate indicated in the PN or the prevailing interest rate at the time of payment, whichever is higher.

h. Penalty charge shall be computed on delayed amortization or, in case of past due accounts, on outstanding balance. Amortization shall mean principal and/or interest payment. When the payment due date falls on a Saturday, Sunday or a non-working holiday, payment made on the next banking days shall be deemed to have been received on the original due date. No penalty charges shall be imposed accordingly.

2.6 Sales Contract Receivable

These are receivables from assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said properties are transferred to the names of the respective buyers only upon full payment of the agreed selling price. These are recorded initially at the value of the installment receivables due from borrower. Discounts are accreted over the life of the SCR by crediting interest income. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18.

2.7 Impairment

A financial asset is impaired if its carrying cost less allowance for losses exceeds its recoverable values. Recoverable amount is the higher of its fair market value less cost to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset. Impairment losses are recognized in the books 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 and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably measured/estimated. The carrying amount of the asset is also reduced through the use of an allowance account. The amount of the impairment loss is recognized in the income statement.

Uncollectible loans are written off against the related allowance account for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of loss has been determined. Subsequent recoveries of amounts previously written off are recognized as deductions to provisions in the income statement.

If in a subsequent period, the amount of the recognized impairment loss decreases, and the decrease can be related objectively to an event after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and the amount of reversal is recognized in the income statement.

In case of Investment property, Bank Premises, Furniture, Fixtures and Equipment (BPFFE) and other assets, impairment loss is the difference between the carrying amount and the fair value less cost to sell in case carrying amount is higher. The loss is recognized in the income statement and an allowance account is set up to reduce the carrying amount of the asset.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment including leasehold improvements are stated at cost less accumulated depreciation and amortization and any impairment in value. Depreciation is computed based on a straight-line method net of ten percent residual value of acquisition cost over the estimated useful lives of the related assets as follows:

Building	10-20 years
Furniture and Fixtures	5-10 years
Equipment	5 years
Leasehold Improvements	5 years (maximum)

PPSB building was acquired thru Dacion En Pago with booked value amounting to P37,567,000.

Impairment is only recognized when there is substantial evidence of the decline in the value of the bank premises, furniture, fixtures and equipment.

The cost of leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements not exceeding 5 years whichever is shorter. Minor expenditures for replacement, maintenance and repairs are expensed as incurred. Major renovations and improvements that will extend the life of the asset are capitalized.

Properties that are no longer needed or uneconomical to maintain are disposed of in accordance with the existing guidelines on disposal. The cost and the related accumulated depreciation and amortization of the disposed assets are derecognized from the books and any resulting gain or loss is credited or charged to current operations.

2.9 Non-Current Assets Held for Sale

The Bank classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable the appropriate level of management is committed to a plan to sell the assets and an active program to locate a buyer and the plan has been initiated. Further, the assets are actively marketed for sale at a price that is reasonable in relation to its current fair value. Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Non-current assets classified as held for sale should be measured at the lower of its carrying amount and fair value less cost to sell. The Bank shall recognize an impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell.

2.10 Investment Property

These are generally land and buildings acquired by the Bank either through foreclosure (legal proceedings initiated by the Bank to acquire the collateral securing the loan of the defaulting borrowers) or dacion en pago in settlement of loans and advances of defaulting borrowers, or assets acquired through the implementation of an execution of attachment of real properties in settlement of the Bank's deficiency claims against defaulting borrowers (legal proceedings initiated by the Bank in case there are still deficiency claims after all the underlying collaterals of the borrowers were judicially/extra-judicially acquired by the Bank). These assets are being held until such time that these are readily available for disposition and are reclassified to Non-Current Assets Held for Sale.

Expenditures such as repairs and maintenance are charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of acquired assets beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of acquired assets held for sale.

2.11 Leases

The leases entered into by the Bank are primarily operating leases. The payments made under operating leases are recognized as an expense on a straight-line basis over the period of the lease. The Bank leases the premises of its 3 branches (Cagayan de Oro, Baguio and Dagupan) from Philippine Postal Corporation (PPC), its mother corporation, for periods ranging from five to ten years renewable upon mutual agreement of both parties. The costs of renovations effected by the Bank on PPC premises are charged against future rentals payable.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

2.12 Intangible Assets

Intangible assets represent costs of software licenses and cost incurred directly in the development and maintenance. These are measured at cost and amortized based on a straight-line method with an expected maximum useful life of 10 years. Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Cost that are directly associated with the production of identifiable and unique software products controlled by the Bank and that will probably generate economic benefits exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include software licenses, software development, employee costs and the related overheads.

2.13 Deferred Tax Asset

Deferred tax assets are the amount of income taxes recoverable in future periods, which are recognized for all deductible temporary differences.

2.14 Recognition of Income and Accounting for Expenses

Interest, other income and expenses are recognized on accrual basis, except for those loan accounts, which are adversely classified consistent with the guidelines of the BSP.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The following are the critical judgments and key assumptions that have significant influence in the carrying amounts of assets and liabilities:

3.1 Impairment losses of loans and receivables

The Bank reviews its loan portfolio to assess impairment at least annually or as the need arises. In determining whether an impairment loss should be recorded in the books, the Bank makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows including information indicating that there has been an adverse change in payment status of borrowers, or national or local economic conditions that correlate with defaults on assets.

3.2 Impairment of AFS investments

The Bank considers AFS investments as impaired when there has been a significant or prolonged decline in fair value (market value) below its cost. The determination of what is significant or prolonged decline in fair value requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the Investee Company, industry and sector performance, changes in technology and operational and financing cash flows.

3.3 Held to Maturity Financial Assets

The Bank follows the guidelines of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment for the Bank in evaluating its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances, the Bank will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not at amortized cost.

3.4 Impairment of Bank Premises, Furniture, Fixtures and Equipment/Other Assets

Assets are reviewed and tested whenever there is indication of impairment at least annually. Impairment of assets requires estimates and judgments through the use of certain tools/devices/factors/market data.

4. FAIR VALUES OF FINANCIAL ASSETS & LIABILITIES

The methods and assumptions used by the Bank in estimating fair values of the financial instruments are the following:

4.1 For debt securities, its fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either value obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments.

4.2 For short-term investments, carrying amounts approximate fair values.

4.3 For other financial assets and financial liabilities with quoted market prices not readily available, they are reported at cost.

4.4 For Cash and cash equivalents, carrying amounts approximate fair values.

5. MANAGEMENT OF RISKS RELATED TO FINANCIAL INSTRUMENTS

The Bank has established risk management systems to address the risks inherent to its activities which include, among others, credit, market, liquidity, foreign currency, and interest rate risks.

Decisions in relation to risk management are made by the Risk Management Committee (RMC), which ensures effective monitoring and control over risks being taken. The committee, together with the Risk Officer, is responsible for the development, implementation, maintenance, improvement and communication of the risk management policy while each business and supporting unit has the primary task of managing the risks applicable to its area of responsibility. The committee has devised a mechanism to ensure an ongoing review of systems, policies and procedures to adapt to changes.

The RMC provides oversight on the Bank's policies and procedures in relation to the management and control of financial risks of the Bank and ensure that the system of limits to discretionary authority that the Board delegates to management are observed and that immediate corrective action are taken whenever there is breach of established limits.

Overall Risk Management Philosophy

Postbank considers sound and adequate risk management as critical component of a stable and profitable financial institution. As risk is an inherent part of its business undertakings- present in the financial instruments it acquires and trades, in loans it grants, in deposits it generates to fund its requirements, and even in people it hires - it is imperative that risk-related issues are taken into consideration in all its business decisions and communicated across the Bank starting from the Board of Directors to Senior Management down to actual risk –taking units through a well-defined risk system and structure. A sound corporate risk management philosophy translates into prudent risk-taking and proactive portfolio management enabling Postbank to pursue its financial expansion while maintaining adequate capital at all times.

Risk Management System and Structure

The risk management framework at Postbank is a top-down process where all risk policies and procedures are approved by the Board of Directors (BOD). The Board sets the overall risk tolerance of the Bank that is consistent with its business plan, financial strength and organizational capability.

BOD has created the Corporate Governance and Risk Management Committee (CGRMC), composed of 5 members of the Board, to oversee the implementation of risk management process that includes development of various risk strategies and principles, implementation of risk measurement tools, monitoring risk indicators and approval of risk limits.

The **Risk Management Office (RMO)** is the direct support of the CGRMC in the day-to-day identification, measurement, monitoring and control of risks. As an independent unit reporting directly to the Board, RMO consults with business units in identifying, measuring, and implementing risk management methodologies and controls. It assists business and operating units in measuring risk/ return to better manage their risk profile. The **Senior Management** of Postbank is also actively involved in the in planning, reviewing and assessing different risks being managed by the Bank through the various committees. The Management Committee (Mancom) ensures that all business objectives are aligned with the risk tolerance set by the Board. The **Assets and Liabilities Management Committee (ALMC)** is responsible for ensuring market and liquidity risks are adequately addressed on long-term and daily basis. The **Lending Committee (LendCom)** which has been delegated with credit authority limits, reviews, approves/ recommends loan proposals and credit policies to the Board.

Internal Audit Group provides another layer for independent check and balance to further strengthen risk controls and compliance. Internal Audit ensures that risk-takers comply with standards and established policies. It also evaluates the effectiveness and adequacy of the Bank's risk management framework particularly on its control processes.

Legal Group has the primary responsibility of reviewing all Bank's documents for completeness and enforceability under respective legal jurisdiction.

Compliance Office oversees that the Bank is effectively managing compliance of regulatory risk as prescribed by the Compliance Manual. The same unit is also responsible for the implementation of the Anti-Money Laundering Program.

Credit Risk

The risks from a borrower or a counterparty to a financial instruments failing to meet contractual obligations to the Bank or to perform as agreed.

The Bank follows the Single Borrower's Limit prescribed by the Bangko Sentral ng Pilipinas (BSP). Credit exposures are constantly monitored and a credit evaluation process is conducted to assess the credit-worthiness of each borrower. The result of the credit evaluation is used as basis in adjusting credit lines periodically. To efficiently manage credit exposures, collateral and other applicable agreements are executed with counterparties whenever possible.

The Bank monitors and reviews from time to time the credit practices and reporting, and if appropriate, approve credit policy changes and procedures to ensure that credit policies are appropriate and are being complied with.

Credit risk pertains to risk of financial loss due to non-payment by borrowers, issuer or counterparties of their obligations, deterioration in credit quality and reduced recovery from a credit facility in the event of default. The Bank is exposed to credit risk as lender, holder of securities and as counterparty in trading activity.

Management of Credit Risk

Management of credit risk at Postbank begins with the loan approval process. The Bank has established a rigid screening and prudent credit evaluation process of loan applications as contained in the credit risk manual. It defines loan activities from identification, credit initiation, documentation, loan administration, etc. The credit process is also guided by Board-approved credit policies and procedures including hierarchy on approving authority, internal risk-rating methodologies and collateral requirements.

An essential part of credit risk management is periodic review of quality of loan portfolio, monitoring of line utilization, analysis of concentration of loans by industry, assessment of adequacy of loan loss provisioning, etc. All these measures are implemented in order to maintain a diversified and sound loan portfolio, and to detect any deterioration in credit quality so that remedial actions can be implemented.

In 2013, the Bank created the Credit Management Group (CMG) to further strengthen its credit process. CMG provides rigid screening and prudent credit evaluation of loan applications as well as periodic assessment of quality of loan portfolio of the Bank.

Aside from strengthening its credit evaluation process, the Bank has increased its provisioning for loan losses to address potential rise in non-performing loans as a result of robust expansion in its loan portfolio. In addition, it has pursued a speedy disposition of its ROPA.

Exposure to Credit Risk

The following are the concentration of credit risk by industry at the reporting date (In million Pesos):

	Dec. 31, 2014
Real Estate Activities	1,634
Salary Loans	1,026
Wholesale and Retail Trade	964
Public Adm. and Defense/Compulsary Social Security	509
Financial and Insurance Activities	384
Administrative and Support Service Activities	251
Agriculture, Hunting and Forestry	203
Construction	157
Art, Entertainment and Recreation	130
Transportation and Storage	124
Accommodation and Food Service Activities	115
Others*	232
	5,729
Allowance for Credit Losses	347
	5,382

** Others include the following Sector – Mining and Quarrying, Manufacturing, Electricity, Gas Steam and Airconditioning Supply, Water Supply, Sewerage and Waste Management, Information and Communication, Professional, Scientific and Technical Activities, Education, Human Health and Social Work Activities, Other Services Activities, Activities of Households as Employers, Auto Loans and Others.*

	Dec. 31, 2014
Real Estate, Renting and Business Activities	1,145
Loans to Individual for Consumption Purposes	984
Wholesale and Retail Trade	789
Public Adm. and Defense	415
Financial Intermediation	253
Transport Storage and Communications	213
Construction	174
Other Community Social and Personal Services	167
Agriculture, Hunting, Forestry and Fishing	82
Manufacturing	72
Consumption Loans/Others*	125
	4,419
Allowance for Credit Losses	290
	4,129

** Please note that effective June 2014, the Bank uses the latest classification of Loan Portfolio by Industry per BSP Financial Reporting Package.*

In terms of credit risk monitoring, the Bank prepares report on credit quality as summarized below (In million Pesos):

	2014	2013
Neither past due nor impaired	5,139	3,955
Past Due but not impaired	64	71
Impaired	527	393
Gross	**5,730**	**4,419**
Less: Specific allowance for credit losses	348	290
Net	**5,382**	**4,130**

The Bank further classifies its non-performing loans into secured and unsecured (In million Pesos):

	2014	%	2013	%
Secured	259	49	133	34
Unsecured	268	51	260	66
	527	**100**	**393**	**100**

Market Risk

The Bank's exposure to market risks originates primarily from its risk-taking activities on fixed income investments in securities and foreign exchange effects. Transaction limits are used to operationally manage market risks.

Market risk is the risk that changes in interest rates, foreign exchange rates, equity prices, commodity prices and other market indicators may affect the Bank's income or values of its financial assets. The Bank uses mark-to-market and factor sensitivity to manage risk on its securities portfolios.

Postbank market risks originate from its holdings of debt securities mainly as compliance to liquidity reserves for government deposits. Further, it classifies its debt securities exposures under trading and non-trading portfolios. The Bank has no outstanding exposure under the Held for Trading (HFT) portfolio as of December 31, 2014.

For debt securities under the Available for Sale Securities (AFS), no significant market risk exposure is observed as the mark-to-market valuation reflected a positive P34 million increasing the portfolio net carrying amount to P133 million.

For Unquoted Debt Securities Classified as Loans (UDSCL) being used as alternative compliance to Agri-Agra law, the Bank's exposure amounted to P97 million with an average coupon rate 6.3 per cent.

The liquidity risk management process at Postbank also includes the preparation of liquidity gap reports. Also called Maximum Cumulative Outflow (MCO) report, it reveals the mismatch on the tenor of the assets against liabilities with risk that the Bank may be forced to borrow at higher rate or sell its assets at a discount to generate the required liquidity.

Liquidity Risk

Liquidity risk pertains to potential losses to the Bank arising from either its inability to meet its obligations or to fund maturing liabilities as they fall due. Senior Management through the Assets and Liabilities Management Committee (ALMC) is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

Liquidity risk is the risk of loss to earnings or capital due to inability to meet funding requirements or payment of obligations as they fall due. Postbank liquidity policy is to maintain sufficient liquidity level not only to service deposit withdrawals and other contractual obligations but also to provide ample buffer to meet any unplanned changes in funding sources or changes in market conditions. Part of liquidity management strategy is to keep a sizeable amount of liquid assets like marketable government securities, and Deposit Balances with BSP such as Special Deposit accounts (SDA).

The Assets and Liabilities Management Committee (ALMC) and Treasury Group supervise the liquidity planning of the Bank both for the day-to-day funding requirements and for balance sheet management purposes. Daily cashflow projection and analysis of liquidity position are prepared with any excess funds temporarily park on interbank placements or deposit balances with BSP.

The liquidity risk management process at Postbank also includes the preparation of liquidity gap reports. Also called Maximum Cumulative Outflow (MCO) report, it reveals the mismatch on the tenor of the assets against liabilities with risk that the Bank may be forced to borrow at higher rate or sell its assets at a discount to generate the required liquidity. The analysis of the MCO report contains risk mitigating measures on how to close the negative gaps particularly on the shorter tenor buckets. The MCO report also takes into account behavioral pattern of deposit withdrawal specifically deposits retained beyond the contractual maturity.

Presented below is the Maximum Cumulative Outflow (MCO) report as of December 31, 2014 (In million Pesos).

	up to 90 days	91 days to 1 year	over 1 year to 5 years	over 5 years to 15 years	Total
ASSETS					
Cash and Cash Equivalents	126	0	0	0	126
Investment Securities	30	17	24	159	230
Due from BSP & other banks	2,990	0	0	0	2,990
Loans and receivables	609	1,122	2,004	1,587	5,322
Other assets	72	14	39	316	441
	3,827	1,153	2,067	2,062	9,109
LIABILITIES					
Deposit Liabilities	4,495	1,725	1,703	0	7,923
Accrued Interest Expense	4	2	7	0	13
Other Liabilities	198	0	0	0	198
	4,697	1,727	1,710	0	8,134
EQUITY				975	
Net Liquidity Surplus (gap)	(870)	(574)	357	1,087	
Cumulative Gap	(870)	(1,444)	(1,087)	0	

1/ Includes Core deposits or those funds expected to remain with the Bank after deducting for volatile deposits and reserves that can be used for lending operations.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable levels. Risk is addressed on a transactional level by matching the benchmark rate or basis for repricing of a particular asset with that of the equivalent source of fund at the onset of the transaction. Further, sensitivity analysis is regularly performed to efficiently manage risk on earnings.

In measuring the interest rate risk, Postbank determines the sensitivity of its assets and liabilities to movements of the interest rates by way of re-pricing gap analysis. The re-pricing gap analysis is calculated by first slotting the interest rate sensitive assets and liabilities into tenor buckets according to next re-pricing date (or the time remaining to maturity if the account has a fixed term), and then obtaining the difference or gap per defined buckets. A gap is considered negative when the level of interest rate sensitive liabilities exceeds that of assets. Conversely, a positive gap indicates more interest rate sensitive assets than liabilities. In an increasing interest rate scenario, a negative re-pricing gap would translate into potential reduction in interest income.

The following table shows the re-pricing gap position of Postbank as of December 31, 2014 (In million Pesos):

	up to 1 month	over 1 mo. to 3 mos.	over 3 mos. to 1 year	over 1 year to 3 years	over 3 years	Total
FINANCIAL ASSETS						
Total Loans and Receivables	1,114	347	549	898	2,412	5,320
Total Investments	0	0	47	24	159	230
Due from Other Banks	0	0	0	0	82	82
Sales Contract Receivables	0	0	0	7	18	25
Total Financial Assets	**1,114**	**347**	**596**	**929**	**2,671**	**5,657**
FINANCIAL LIABILITIES						
Deposit Liabilities	4,493	1,725	1,703	0	0	7,921
Total Financial Liabilities	**4,493**	**1.725**	**1,703**	**0**	**0**	**7,921**
Repricing Gap	**(3,379)**	**(1,378)**	**(1,107)**	**929**	**2,671**	**(2,264)**

6. CASH AND OTHER CASH ITEMS

Cash and cash equivalents consists of the following:

	2014	2013 As restated
Cash on Hand	124,683,360	96,923,067
Checks and Other Cash Items	1,346,346	900,585
Petty Cash Fund	150,000	139,000
	126,179,706	**97,962,652**

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the following: a) demand deposits which the Bank utilizes in its clearing operations, b) Special Deposit Account for liquidity requirement purposes, and c) Reserve Deposit Account for the Circular 10 compliance of the Bank with the Bangko Sentral ng Pilipinas (BSP).

	2014	2013
Reserve Deposit Account	2,255,000,000	539,000,000
Demand Deposit Account	653,218,350	384,989,583
	2,908,218,350	**923,989,583**

8. DUE FROM OTHER BANKS

This account represents demand deposit account, short-term investments in special savings deposits and premium savings account deposited with the following banks:

	2014	2013 As restated
United Coconut Planters Bank (UCPB) Peso Account	38,987,484	56,754,106
UCPB US Dollar Account	34,489,874	34,055,008
Philippine National Bank (PNB) Peso Account	14,974,931	7,373,651
Philippine Business Bank	7,973,974	5,960,903
Rizal Commercial Banking Corporation	5,735,986	3,334,088
Philippine Savings Bank	5,714,921	811,659
Landbank of the Philippines (LBP) Peso Acount	5,400,247	4,911,879
China Bank	2,596,426	5,351,942
MetroBank & Trust Co.	502,881	503,863
LBP US Dollar Account	86,573	85,824
Banco de Oro Unibank, Inc.	58,133	59,017
Asia United Bank	50,137	0
PNP-US Dollar Account	40,244	2,687,198
Development Bank of the Philippines	25,022	0
Santander	0	66,446
	116,636,833	**121,955,584**

9. LOANS & RECEIVABLES

This account consists of:

	2014	2013
Loans to Private Corporation	2,369,708,449	1,630,398,363
Consumption Loans	1,044,228,645	982,704,561
Small & Medium Enterprises	783,077,146	447,810,147
Loans to Government	496,421,418	346,839,143
Contract to Sell	400,969,727	307,191,462
Agrarian Reform & Other Agricultural Loans	377,906,530	198,705, 497
Loans to Individuals for Housing Purposes	134,543,902	134,507,168
Loans to Individuals for Other Purposes	112,262,975	178,002,961
Microfinance Loans	10,712,758	2,439,484
Development Incentive Loans - PD 717	0	190,726,096
	5,729,831,550	**4,419,324,882**
Allowance for Losses	(409,586,109)	(337,902,530)
Net of Allowance	**5,320,245,441**	**4,081,422,352**

As to Status:

	2014	2013
Current Loans	5,139,162,520	3,912,876,904
Non-Performing Loans	590,669,030	424,320,754
Restructured Loans - Performing	0	42,536,259
Restructured Loans - Non Performing	0	39,590,965
	5,729,831,550	**4,419,324,882**

As to Security:

	2014	2013
Secured Loans	3,984,474,700	2,664,228,401
Unsecured Loans	1,745,356,850	1,755,096,481
	5,729,831,550	**4,419,324,882**

As to Type of Security:

	2014	2013
Real Estate Mortgage	2,385,572,365	1,657,216,184
Other Collaterals	1,598,902,335	1,007,012,217
	3,984,474,700	**2,664,228,401**

Consumption loans include financial assistance given to eligible employees of the PPC and PPSBI, for personal consumption such as educational, hospital or medical, appliance purchase and/or working capital for business/livelihood purposes in the form of salary loans in a maximum amount of P150,000 and P250,000, respectively.

10. AVAILABLE FOR SALE FINANCIAL ASSETS

This account is composed of investments in government treasury bills and fixed treasury notes purchased from the following:

	2014	2013
Security Bank Corp.	109,166,399	108,354,169
Hongkong and Shanghai Bank	24,123,341	26,027,428
First Metro Investment Group	0	315,069
	133,289,740	**134,696,666**

11. HELD TO MATURITY FINANCIAL ASSETS

This account is composed of investments with the Bureau of Treasury in government treasury bills and fixed treasury notes purchased from the following:

	2014	2013
Rizal Commercial Banking Corp.	0	407,727,072
Philippine National Bank	0	307,401,790
Security Bank Corp.	0	189,688,018
First Metro Investment Corporation	0	150,000,000
Union Bank of the Phils.	0	114,550,461
Philippine Veterans Bank	0	50,000,000
	0	**1,219,367,341**

12. UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS

These are securities invested for compliance purposes:

	2014	2013
Philippine Commercial Capital, Inc.	50,241,038	150,186,169
SB Corporation Note (MSME)	30,190,528	30,132,707
Rizal Commercial Banking Corporation	16,724,763	16,852,068
Multinational Investment Bancorporation	0	100,000,000
	97,156,329	**297,170,944**

Investments in government securities are held by the Bureau of Treasury under the Registry of Scripless Securities (ROSS) System in compliance with BSP Memorandum Circular (series of 1997) dated October 6, 1997.

13. BANK PREMISES, FURNITURE, FIXTURES & AND EQUIPMENT

This account consists of:

	Land	Building	Furniture Fixture & Equipment	Motor Vehicles	Computer and Peripherals	Lease, Right and Improvements	Totals
Cost							
1-Jan-14	0	41,590,705	67,965,121	13,587,396	146,436,726	16,683,686	286,263,634
Additions	131,008,000	0	4,813,618	144,378	7,298,855	7,648,833	150,913,684
Disposals	0	0	(3,574,009)	(135,675)	(3,618,456)	(2,922,726)	(10,250,866)
Reclassifications	0	(88,805)	(1,519,785)	(73,897)	(1,568,492)	2,092,242	(1,158,737)
31-Dec-14	131,008,000	41,501,900	67,684,945	13,522,202	148,548,633	23,502,035	425,767,715
Accumulated Depreciation							
1-Jan-14	0	2,819,476	64,770,862	9,880,746	117,669,676	8,469,930	203,610,690
Provisions	0	2,467,272	3,131,923	1,400,772	5,111,810	8,072,270	20,184,047
Disposals	0	0	(3,602,564)	(134,704)	(3,397,335)	0	(7,134,603)
Reclassifications	0	0	(6,204,201)	825,369	(3,106,477)	(1,011,801)	(3,284,156)

31-Dec-14	0	5,286,748	58,096,020	11,972,183	122,490,628	15,530,399	213,375,978
Carrying Amount 31-Dec-14	**131,008,000**	**36,215,152**	**9,588,925**	**1,550,019**	**26,058,005**	**7,971,636**	**212,391,737**
Carrying Amount 31-Dec-14	0	38,771,229	3,194,259	3,706,650	28,767,050	8,213,756	82,652,944

14. NON-CURRENT ASSETS HELD FOR SALE

These are real and other properties acquired that are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the sale must be highly probable.

	2014	2013
Head Office–Manila Branches	64,250,358 0	0 0
 Accumulated Depreciation	64,250,358 6,807,914	0 0
 Allowance for Probable Losses	57,442,444 3,239,084	0 0
Net of Allowance	**54,203,360**	**0**

15. INVESTMENT PROPERTY

Investment Property represent properties acquired by the Bank judicially in settlement of outstanding loans of delinquent borrowers. These are maintained by the Bank pending sale through public auction after a one-year redemption period as mandated by Bangko Sentral ng Pilipinas regulations.

	2014	2013
Head Office–Manila Branches	57,034,655 0	99,641,407 0
 Accumulated Depreciation	57,034,655 1,826,491	99,641,407 4,335,618
 Allowance for Probable Losses	55,208,164 8,794,191	95,305,789 13,013,111
Net of Allowance	**46,413,973**	**82,292,678**

16. SALES CONTRACT RECEIVABLE

This account represents the amortized cost of assets acquired in settlement of loans through foreclosure or dacion in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers only upon full payment of the agreed selling price.

This account consists of:

	2014	2013
Sales Contract Receivable	28,913,149	47,465,259
Less: Provision for Credit Losses	3,928,000	0
	24,985,149	**47,465,259**

17. OTHER RESOURCES

This account is composed of the following:

	2014	2013
Accrued Interest Income from Financial Assets	55,996,002	66,677,397
Accounts Receivables	21,644,016	18,453,251
Prepaid Expenses	6,744,805	5,861,587
Returned checks and other cash items	6,473,363	1,353,539
Stationery and Supplies on Hand	4,324,109	4,192,224
Documentary stamps on checks	2,286,413	2,360,463
Other Intangible Assets	1,384,962	9,832,392
Shortages	799,468	7,300,000
Sundry debits	468,647	10,487,742
Other Investments	153,333	153,333
Miscellaneous Assets	24,816,859	19,957,930
	112,173,593	**130,893,355**

The Accounts Receivable includes the amount of P4 million and P7.3 million misappropriated by the former Cashier of Sorsogon and TaclobanBranches which cases were already filed in court.

The decrease in the Other Intangibles account was due to the increase in the monthly amortization from P0.600 million to P1.4 million per month due to the management plan to replace the Misys CASA System now being utilized by the Bank with a new deposit system. An allowance for impairment was also provided.

Shortages of P0.8 million came from the reconciling items of the ATM withdrawals and settlement transactions of Tacloban Branch for proper disposition after the investigation.

18. DEPOSIT LIABILITIES

As of December 31, 2014, the Bank has P7.96 billion deposits, of which 65 per cent came from the government sector. Of the total deposit liabilities, P34.58 million represents foreign currency deposits (FCDU) with interest rates ranging from 0.25 per cent to 0.875 per cent. Peso Deposits interest rates ranging from 0.25 per cent to 2.0 per cent.

19. ACCRUED EXPENSES

This account represents:

	2014	2013
Fringe Benefits	31,567,119	24,310,449
Accrued Interest Expense in Financial Liabilities	13,852,663	8,336,508
Litigation/Assets Acquired	13,315,029	6,110,063
Income Tax Payable	10,000,000	10,000,000
Management and Other Professional Fees	7,104,832	5,809,391
Rent	3,702,042	3,078,896
Salaries and Wages	2,848,603	304,234
Security, Clerical, Messengerial and Janitorial	2,582,448	2,716,368
Other Taxes & Licenses	1,569,162	956,237
Power, Light and Water	1,355,092	1,320,066
Postage, Tel., Cables & Teleg	737,248	841,058
Repairs and Maintenance	692,956	371,573
Fuel and Lubricants	130,076	186,354
Fines, Penalties and other charges	11,592	12,432
Others	12,437,388	9,126,181
	101,906,250	**73,479,810**

20. OTHER LIABILITIES

This account comprises:

	2014	2013
Account Payable–Others	74,534,60	67,512,237
Inter-office float items	8,280,261	8,584,892
Withholding tax payable	4,245,822	3,259,642
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	598,348	852,258
Unclaimed Balances	188,832	97,060
Sundry credits	52,523	(34,330)
Overages	29,095	6,294
Miscellaneous Liabilities	214,163	294,562
	88,143,604	**80,572,615**

The Accounts Payable represents overpayment on loans pending refund, loans payment pending posting, contributions payable to BIR, SSS, PHIC, Banc net, delivered items of supplies and equipment not yet paid and others.

21. CAPITAL STOCK

The Bank is authorized to issue 10 million shares at P100 par value. Total subscribed is 8,802,428 shares amounting to P880,242,883. Five million shares were subscribed by Philippine Postal Corporation of which 4.200 million shares or P420 million was fully paid. Per Board Resolution No. 2011-274, the Board of Directors approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the present cash balance of the Project Drive Fund amounting to P249,234,883 or equivalent to 2,492,348 shares. The National Government has consented to the treatment of the Fund as capital in the books of PPSB per memorandum from the Executive Secretary dated December 16, 2011. This Fund represents the outstanding balance from P500 million previously released by the National Government to PPSBI for disbursement to the National Government's microfinance program for the transport sector. Additional common shares of stocks were issued to the National Government corresponding to the latest appraised value of the parcel of land where the Head Office is situated per Board Resolution No. 201-142 dated June 10, 2014.

22. RETAINED EARNINGS

In consonance with PAS 8, the balance of this account was restated as follows:

Particulars	Debit	Credit	Balance
Retained Earnings beg. 2013			(48,523,458)
Adjustments:			
Prior period – Directors Disallowance		301,666	
Adjustment in compensation	23,236		
Consultance fee reversal		50,000	
	23,236	351,666	328,430
Restated Retained Earning beg.			(48,195,028)
Net Income before restatement			64,425,702
Adjustments:			
Proceeds from insurance - Typhoon Yolanda		1,099,643	
Foreign Exchange Profit & Loss Adjustment	3,431		
	3,431	1,099,643	1,096,212
Restated Net Income for CY 2013			**65,521,914**
Restated Retained Earnings, end			**17,326,886**

23. PROVISION FOR FINAL TAX

This account represents 20 per cent tax on gross income realized from government securities held during the period.

In compliance with generally accepted accounting principles on accounting for income taxes, the system of recording at gross all amounts/income from government securities was adopted.

24. INCOME AND OTHER TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipt tax and documentary stamp tax.

Income taxes include the corporate income tax and final taxes paid at the rate of 20 percent, which is a final withholding tax on gross interest income from government securities.

Interest allowed as a deductible expense is reduced by an amount equivalent to 33 per cent of interest income subject to final tax.

	2014	2013
Annual/Quarterly Income Taxes (1702)	40,925,063	6,083,142
Percentage Taxes (2551M)	33,710,813	22,713,576
Documentary Stamp Taxes	27,182,592	23,325,844
Income Taxes on Compensation (1601C)	21,932,433	16,278,837
Final Income Taxes (1602)	15,969,563	17,187,005
VAT & Other Percentage Taxes (1600)	4,365,217	3,829,036
Creditable Income Taxes (1601E)	3,576,527	3,279,684
Annual Registration	12,500	12,500
	147,674,708	**92,709,624**

25. MISCELLANEOUS INCOME

This account represents additional interest and penalty charges on loans and other fees collected by the Bank. Penalties on past due loans amounted to P12.337 million and others at P6.504 million.

26. OPERATING EXPENSES

	2014	2013
Compensation and Fringe Benefits	199,307,756	176,074,749
Training and Seminars	3,233,830	289,733
Provision for probable losses	74,952,373	36,025,621
Taxes and Licenses	38,046,083	25,835,369
Rent	28,973,430	29,482,652
Depreciation and Amortization	28,681,827	34,474,926
Information Technology	20,782,272	14,771,177
Security, clerical, messengerial and janitorial	19,633,159	18,204,794
Insurance	19,261,639	16,849,681
Representation & Entertainment	14,030,089	12,230,650
Power, Light and Water	11,891,523	11,206,520
Litigation Expense	11,641,556	8,243,130
Documentary stamps used	9,898,840	8,257,806
Stationeries and supplies used	6,873,247	6,880,124
Repairs and maintenance	6,056,878	4,941,531
Management and other professional fees	5,869,899	4,401,881
Travelling expense	5,822,818	4,404,664
Postage, telephone, cable and telegram	5,711,542	5,834,279
Fuel and lubricants	2,795,922	2,693,901
Fees and commission	2,317,957	1,843,578
Supervision fees	2,019,589	2,016,292
Advertising and publicity	1,094,823	827,177
Impairment Loss	1,065,266	10,585,957
Membership fees and dues	852,526	867,855
Donation and charitable contributions	245,970	52,602
Fines, penalties and other charges	183,016	67,372
Periodicals and magazines	97,994	94,036
Bad debt expense	0	414,601
Miscellaneous expenses	802,939	470,467
	522,144,763	**438,343,125**

27. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

	2014	2013
	(In percentage)	
Return on Average Equity	13.62	9.08
Return on Average Assets	1.45	0.90
Net Interest Margin	6.06	5.75
Risk Based Capital Adequacy Ratio	14.59	12.52

28. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans, deposits and other transactions with its related parties and with some directors, officers and related interest (DOSRI).

The loan granted by the Bank to its mother company, Philippine Postal Corporation (PPC) in December 2006 and July 31, 2008 has an outstanding balance of P91.794 million as of December 31, 2014. The loan is secured by Real Estate Mortgage and a deposit holdout of peso and dollar deposits with the Bank. Payments of monthly amortizations were effected thru offsetting of the building rentals and direct payments.

The total DOSRI loan as of year ended 2014 is P91.794 million which were fully secured and on a current status which represents 1.60 per cent of the Total Loan Portfolio.

29. COMMITMENTS AND CONTINGENT LIABILITIES

The Bank is contingently liable for lawsuits or claims filed by third parties, which are either pending decision by the courts or under negotiations, the outcomes of which are not determinable at balance sheet date.

30. SUBSEQUENT EVENTS

Investment in notes by the Quedan and Rural Credit Guarantee Corporation (Quedancor) for the Bank's Agri-Agra compliance is now under negotiation for the replacement by Quedancor Restructured Notes. This account is fully provided with allowance for losses and accruals for the litigation expenses.

31. AUTHORITY TO ISSUE FINANCIAL STATEMENTS

Stockholders' Resolution No. 2015-01 entitled "CONFIRMATION OF THE 2014 ANNUAL REPORT of the PPSBI, which contains its 2014 Financial Statements, was presented to and duly confirmed and noted by the Stockholders who were represented by the Board of Directors in the PPSBI's Annual Stockholders' Meeting held on April 14, 2015.

32. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the financial statements were reclassified to conform with the current year's presentation.