2015 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 statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information

Managements Responsibility for the Financial Statements

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

Auditor's Responsibilitty

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Impairment loss amounting to ₱81.527 million for secured/unsecured past due loans which were of doubtful collectability was not recognized in 2015 as required under PAS 39. Had impairment loss been recognized in 2015, loans and receivable account and income for the year would have been decreased by ₱81.527 million. Loans and receivables amounting ₱1.677 billion in 2015 and ₱2.128 billion in 2014 were carried at diminishing cost instead of amortized cost using the effective interest method as required under paragraph 9 of Philippine Accounting Standards (PAS) 39. Had loans and receivables been carried at amortized cost using effective interest method, loans and receivable account would have been decreased by at least ₱1.120 million in 2015 and ₱3.723 million in 2014 , and interest income account would have been increased by at least ₱139,115 in 2015 and ₱338,563 in 2014.

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, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

PPSBI recorded the cash balance of the Project DRIVE Fund amounting to ₱249.235 million as capital in its books of accounts under a condition that the same shall be used for its original purpose. Said balance came from the fund amounting to ₱500 million released by the National Government to PPSBI for disbursement to the National Government's microfinance program for the transport sector. In January 2012, PPSBI re-launched its microfinance program and renamed it "Arangkada Pasada". Loans amounting to only ₱0.660 million representing a little more than one fourth of one per cent of the converted Project DRIVE Fund was released for said program. Further, the treatment on the cash balance as capital was in violation of Section 84 (2) of P.D. 1445 and Section 28 (3), Article VI of the Philippine Constitution. The implementation of Project DRIVE is subject of a special audit by the Commission on Audit, the results of which shall be covered by a separate audit report. Our opinion is not modified with respect to this matter.

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

Our audits were conducted were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Note 23 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

By :

EDUARDO D. PADERNAL
Supervising Auditor

May 13, 2016

STATEMENT OF FINANCIAL POSITION - BANKWIDE

AS OF DECEMBER 31, 2015 (AUDITED)

(In Philippine Peso)

ASSETS	2015	2014 as restated
RESOURCES		
Cash and cash equivalents	107,039,280	126,179,706
Due from Bangko Sentral ng Pilipinas	2,658,121,435	2,908,218,350
Due from other banks	2,611,314,931	116,636,833
Loans and receivables - net	6,114,575,872	5,320,245,441
Available for sale financial assets	22,437,127	133,289,740
Unquoted debt securities classified as loans	60,266,452	97,156,329
Bank premises, furniture, fixtures and equipment - net	198,267,629	202,620,896
Non-Current assets held for sale	41,198,221	54,203,360
Investment property	71,764,930	46,413,973
Sales contract receivable	32,272,651	24,985,149
Other resources	156,907,935	112,173,593
TOTAL RESOURCES	**12,074,166,463**	**9,142,123,370**
LIABILITIES AND EQUITY		
Deposit liabilities		
Savings	7,525,923,400	7,289,170,896
Time	2,784,419,022	248,929,704
Demand	454,918,662	418,342,277
Manager's/Cashier's checks	19,097,299	29,586,022
Unearned income and other deferred credits	807	256,805
Accrued taxes and other expenses	82,424,938	89,317,854
Special Time Deposit	40,000,000	0
Other liabilities	86,744,097	88,143,604
TOTAL LIABILITIES	10,993,528,225	8,163,747,162
EQUITY	1,080,638,238	978,376,208
TOTAL LIABILITIES AND EQUITY	**12,074,166,463**	**9,142,123,370**

STATEMENTS OF COMPREHENSIVE INCOME - BANKWIDE

AS OF DECEMBER 31, 2015 (AUDITED)

(In Philippine Peso)

INCOME & EXPENSE ACCOUNTS	2015	2014 as restated
INTEREST INCOME		
Interest/discount earned on loans & discounts	593,172,165	553,197,287
Interest on investments	9,735,682	23,643,607
"Interest income - loans and receivable arising from RA/CA/PR/SLB"	0	0
Interest on due from Bangko Sentral ng Pilipinas	44,895,023	34,165,691
Interest on deposits with banks	**17,775,448**	**521,195**
Interest income on sales contract receivable	3,276,743	2,198,470
Others	131	137
	668,855,192	613,726,387
INTEREST EXPENSE		
Interest on deposit liabilities	135,532,671	101,002,887
Provision for losses on accrued interest income	1,109,476	3,633,111
	136,642,147	**104,635,998**
NET INTEREST INCOME	532,213,045	509,090,389
OTHER INCOME		
Fees and commission income	26,579,472	35,798,314
Gain/loss from sale/derecognition of non-financial assets	6,061,582	13,333,223
Gain on financial assets and liabilities held for trading		
	29,329	1,687
Gain from sale/redemption/derecognition of non-trading financial assets & liabilities		
	29,515,001	**113,862,076**
Foreign exchange (loss)/gain	68,836	17,970
Recovery on charged-off assets	1,395,763	225,592
Miscellaneous income	59,188,697	18,927,503
	122,838,680	182,166,365
OPERATING EXPENSES	**488,148,682**	**530,579,278**
NET INCOME BEFORE TAX	**166,903,043**	**160,677,476**
PROVISION FOR INCOME TAX	**32,196,991**	**38,736,563**
NET INCOME AFTER TAX	134,706,052	121,940,913
OTHER COMPREHENSIVE INCOME(LOSS)	**(32,444,022)**	**24,243,486**
TOTAL COMPREHENSIVE INCOME	102,262,030	146,184,399

STATEMENTS OF CHANGES IN EQUITY

AS OF DECEMBER 31, 2015 (AUDITED)
(In Philippine Peso)

		Capital Stock	Other Comprehensive Income	Retained Earnings Unappropriated	Total Equity
	NOTE	20		21	
Balance January 1, 2014		**629,234,883**	**10,610,340**	**17,326,886**	**657,172,109**
Issuance of Capital Stock		171,008,000			171,008,000
Unrealized Gains on Available for Sale Securities			24,243,486		24,243,486
Prior period adjustments				4,011,700	4,011,700
		800,242,883	**34,853,826**	**21,338,586**	**856,435,295**
Net income, 2014 before restatement				123,135,058	123,135,058
Net Adjustments				(1,194,145)	(1,194,145)
Net Income, 2014 as restated				121,940,913	121,940,913
Balance, December 31, 2014 as restated		**800,242,883**	**34,853.826**	**143,279,499**	**978,376,208**
Unrealized gain on available for sale securities			(32,444,022)		(32,444,022)
Net income, 2015				134,706,052	134,706,052
Balance, December 31, 2015		**800,242,883**	**2,409,804**	**277,985,551**	**1,080,638,238**

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (AUDITED)
(In Philippine Peso)

	NOTE	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Deposit from clients		2,808,818,207	1,570,682,295
Interest income, fees and commission received		750, 887,634	665,676,920
Release/collection of loans and receivables		(881,065,411)	(1,313,462,162)
Fund advances/collection to customers		(832,633)	(3,190,764)
Profit from sale/redemption of investments		29,515,001	114,254,205
Recoveries on loans previously written off		1,395,763	225,592
Income from assets held for trading		29,329	1,687
Proceeds/withdrawal to BSP for regulatory or monetary control purposes		250,096,915	(1,984,228,767)
Cash payments to suppliers		(264,174,114)	(127,243,858)
Cash payments to employees		(191,549,150)	(201,809,316)
Interest and finance charges		(131,107,293)	(95,486,731)
Prepaid taxes, licenses and other expenses		(9,021,254)	5,083,616
Cleared/returned checks and other cash items		5,667,675	(5,119,825)
Payment of/proceeds from sale of financial assets		78,408,591	25,650,411
Payments/proceeds of unidentified cleared checks		(173,656)	10,019,095
Payment of taxes		(64,948,353)	(83,715,910)
Collection/payments of prior period expenses		2,817,555	0
Payment of litigation/asset acquired expenses		(3,493,793)	(11,641,556)
Transfer of funds from regional branches		(5,474,314)	5,014,122
Issued checks to suppliers not yet presented for payment		19,097,299	0
Net cash provided/used in operating activities		2,394,893,998	(1,429,290,946)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase/Proceeds from sale of non dealing securities/HTM		0	1,219,367,341
Purchase/sale of unquoted debt securities classified as loans		36,889,877	200,014,615
Investments with Local Banks		(2,494,678,098)	0
Rental income		6,845	6,760
Proceeds/payment from sale thru dacion of real and other properties acquired (ROPA)		0	4,155,455
Acquisition of property and equipment		(2,383,466)	(19,387,364)
Profit(loss) from asset sold/acquired		6,061,582	13,333,223
Net cash used/provided by investing activities		(2,454,103,260)	1,417,490,030
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of Long Term Borrowings (ACPC)		40,000,000	0
Issuance of common shares		0	40,000,000
Net cash provided by financing activities		40,000,000	40,000,000
Effects of exchange rate changes on cash and cash equivalent		68,836	17,970
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(19,140,426)**	**28,217,054**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**126,179,706**	**97,962,652**
CASH AND CASH EQUIVALENT AT END OF YEAR	6	**107,039,280**	**126,179,706**

Notes to Consolidated Financial Statements

1. GENERAL INFORMATION

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, 2015, the bank had 460 employees and operated twenty five (25) branches and six (6) Micro Banking Offices (MBO), namely:

North Luzon Area

1. Tuguegarao, Cagayan Branch
2. Baguio Branch
3. Asingan, Pangasinan Branch
4. Dagupan, Pangasinan Branch
   - 4.1 MBO Binmaley
   - 4.2 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
   - 1.1 MBO Bula
   - 1.2 MBO Bombon
2. Tigaon, Camarines Sur Branch
3. Legaspi, Albay Branch
   - 3.1 MBO Bacacay
   - 3.2 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
b. General 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

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
Quaterly	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) payment Amortized	From maturity date to payment date 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 dation 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 from Philippine Postal Corporation on November 02, 2012 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, 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.

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

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.

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.

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):

	2015	**2014**
Real Estate Activities	1,902	1,634
Wholesale and Retail Trade	1,240	964
Salary-Based General-Purpose Consumption Loans	881	1,026
Public Adm. and Defense/Compulsary Social Sec.	500	509
Financial and Insurance Activities	458	384
Administrative and Support Service Activities	247	251
Agriculture, Hunting and Forestry	241	203
Construction	215	157
Education	147	18
Other Services Activities	109	28
*Others	475	555
	6,415	**5,729**
Allowance for Credit Losses	209	347
	6,206	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.

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

	2015	2014
Neither past due nor impaired	5,888	5,139
Past Due but not impaired	65	64
Impaired	462	527
	6,415	**5,730**
Less: Specific allowance for credit losses	209	348
	6,206	**5,382**

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

	2015	Per cent	2014	Per cent
Secured	181	39	259	49
Unsecured	281	61	268	51
	462	100	527	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, 2015.

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 P4 million increasing the portfolio net carrying amount to P75 million.

For Unquoted Debt Securities Classified as Loans (UDSCL) being used as alternative compliance to Agri-Agra law, the Bank's exposure amounted to P50 million with an average coupon rate 6.5 per cent.

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, 2015 (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	107	0	0	0	107
Investment securities	0	10	73	0	83
Due from BSP & other banks	2,781	0	0	0	2,781
Loans and receivables	1,209	631	1,853	2,421	6,114
Other assets	119	22	15	337	493
	4,216	663	1,941	2,758	9,578
Liabilities					
Deposit liabilities	6,585	1,690	0	0	8,275
Accrued interest expense	10	5	0	0	15
Other liabilities	207	0	0	0	207
	6,802	1,695	0	0	8,497
Equity				1,080.75	
Net Liquidity surplus (gap)	(2,586)	(1,032)	1,940	1,678	
Cumulative gap	(2,586)	(3,618)	(1,678)	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, 2015 (In million Pesos):

	Up to 1 month	Over 1 month to 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years	Total
FINANCIAL ASSETS						
Total Loans & Receivables	1,446	554	385	1,062	899	4,346
Total Investments	0	0	10	50	0	60
Due from Other Banks	0	0	0	0	123	123
Sales Contract Receivables	0	0	0	11	21	32
Total Financial Assets	1,446	554	395	1,123	1,043	4,561
FINANCIAL LIABILITIES						
Deposit Liabilities	4,432	1,884	1,959	0	0	8,275
Total Financial Liabilities	4,432	1,884	1,959	0	0	8,275
Repricing Gap	**(2,986)**	**(1,330)**	**(1,564)**	**1,123**	**1,043**	**(3,714)**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	2015	2014
Cash on Hand	99,085,473	124,683,360
Checks and Other Cash Items	7,853,807	1,346,346
Petty Cash Fund	100,000	150,000
	107,039,280	**126,179,706**

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.

	2015	2014
Reserve Deposit Account	1,977,000,000	2,255,000,000
Checks and Other Cash Items	681,121,435	653,218,350
	2,658,121,435	**2,908,218,350**

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:

	2015	2014
Philippine Business Bank	1,471,639,217	7,973,974
MayBank	517,992,437	0
China Bank	503,800,256	2,596,426
United Coconut Planters Bank (UCPB) Peso Account	87,583,809	38,987,484
Philippine National Bank (PNB) Peso Account	15,985,822	14,974,931
Rizal Commercial Banking Corporation	6,616,716	5,735,986
Landbank of the Philippines(LBP) Peso Account	3,009,428	5,400,247
UCPB US Dollar Account	2,504,942	34,489,874
Asia United Bank	1,050,535	50,137
MetroBank& Trust Co.	504,790	502,881
Philippine Savings Bank	219,566	5,714,921
PNB-US Dollar Account	215,418	40,244
LBP US Dollar Account	100,648	86,573
Banco de Oro Unibank, Inc.	62,256	58,133
Development Bank of the Philippines	29,091	25,022
	2,611,314,931	**116,636,833**

9. LOANS & RECEIVABLES

This account consists of:

	2015	2014
Loans to Private Corporation	2,948,734,019	2,369,708,449
Small & Medium Enterprises	998,800,045	783,077,146
Consumption Loans	900,505,134	1,044,228,645
Loans to Government	469,887,596	496,421,418
Contract to Sell	437,252,575	400,969,727
Agrarian Reform &Other Agricultural Loans	388,089,625	377,906,530
Loans to Individuals for Housing Purposes	114,512,730	134,543,902
Microfinance Loans	80,965,343	10,712,758
Loans to Individuals for Other Purposes	76,264,742	112,262,975
	6,415,011,809	**5,729,831,550**
Allowance for Losses	(300,435,937)	(409,586,109)
Net of Allowance	**6,114,575,872**	**5,320,245,441**

As to Status:

	2015	2014
Current Loans	5,953,000,393	5,139,162,520
Non-Performing Loans	462,011,416	590,669,030
	6,415,011,809	**5,729,831,550**

As to Security:

	2015	2014
Secured Loans	4,763,632,341	3,984,474,700
Unsecured Loans	1,651,379,468	1,745,356,850
	6,415,011,809	**5,729,831,550**

As to Type of Security:

	2015	2014
Real Estate Mortgage	2,805,383,235	2,385,572,365
Other Collaterals	1,958,249,106	1,598,902,335
	4,763,632,341	**3,984,474,700**

Consumption loans include financial assistance given to eligible employees of the PPC & 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

	2015	2014
Security Bank Corp.	0	109,166,399
Hongkong and Shanghai Bank	22,437,137	24,123,341
	22,437,137	**133,289,740**

11. UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS

These are securities invested for compliance purposes:

	2015	2014
Philippine Commercial Capital, Inc.	50,163,524	50,241,038
SB Corporation Note (MSME)	10,102,928	30,190,528
Rizal Commercial Banking Corporation	0	16,724,763
	60,266,452	**97,156,329**

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.

12. 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-15	131,008,000	41,501,900	67,684,945	13,522,202	148,548,633	23,502,035	425,767,715
Additions		0	3,319,155	151,927	5,449,503	4,731,551	13,652,136
Disposals	0	0	(3,917,395)	(198,050)	(9,656,004)	0	(13,771,449)
Reclassifications	0	0	(1,046,614)	139,100	(2,020,111)	12,876	(2,914,749)
31-Dec-15	131,008,000	41,501,900	66,040,091	13,615,179	142,322,021	28,246,462	422,733,653
Accumulated Depreciation							
1-Jan-15	0	5,286,748	58,096,020	11,972,183	132,261,469	1,5530,399	223,146,819
Provisions	0	2,841,307	3,370,097	875,385	5,239,902	2,495,912	14,822,603
Disposals	0	0	(3,860,557)	(107,550)	(9,226,309)	0	(13,194,416)
Reclassifications	0	334,249	(1,454,587)	(863,966)	(335,105)	2,010,427	(308,982)
31-Dec-15	0	8.462,304	56,150,973	11,876,052	127,939,957	20,036,738	224,466,024
Carrying Amount 31-Dec-15	131,008,000	33,039,596	9,889,118	1,739,127	14,382,064	8,209,724	198,267,629
Carrying Amount 31-Dec-14	131,008,000	36,215,152	9,588,925	1,550,019	16,287,164	7,971,636	202,620,896

13. 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.

	2015	2014
Head Office – Manila	46,515,679	64,250,358
Accumulated Depreciation	4,428,679	6,807,914
	42,087,000	57,442,444
Allowance for Probable Losses	888,779	3,239,084
Net of allowance	**41,198,221**	**54,203,360**

14. 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.

	2015	2014
Head Office – Manila	90,136,572	57,034,655
Accumulated Depreciation	11,390,242	1,826,491
	78,746,330	55,208,164
Allowance for Probable Losses	55,208,164	8,794,191
Net of allowance	**71,764,930**	**54,203,360**

15. SALES CONTRACT RECEIVABLE

This account represents the amortized cost of assets acquired in settlement of loans through foreclosure or dation 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:

	2015	2014
Sales Contract Receivable	32,272,651	28,913,149
Less: Provision for Credit Losses	0	3,928,000
Net Amount	**32,272,651**	**24,985,149**

16. OTHER RESOURCES

This account is composed of the following:

	2015	2014
Accrued Interest Income from Financial Assets	59,468,886	55,996,002
Miscellaneous Assets	57,266,821	24,816,859
Accounts Receivables	22,476,648	21,644,016
Prepaid Expenses	15,766,058	6,744,805
Stationery and Supplies on Hand	4,220,382	4,324,109
Documentary stamps on checks	2,780,288	2,286,413
Other Intangible Assets	2,360,773	1,384,962
Returned checks and other cash items	805,688	6,473,363
Sundry debits	642,303	468,647
Shortages	481,850	799,468
Other Investments	153,333	153,333
	166,423,030	125,091,977
Other Assets – Allow for Losses	(9,515,095)	(12,918,384)
	156,907,935	**112,173,593**

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

Payments for our ongoing LMS/GL and Deposit System projects amounting to P16.04 million and P32.43 million, respectively, were temporarily lodge to Miscellaneous Assets account.

17. DEPOSIT LIABILITIES

As of December 31, 2015, the bank has P10.77 billion deposits, of which 49 per cent came from the government sector. Of the total deposit liabilities, P2.49 billion represents foreign currency deposits (FCDU) with interest rates ranging from 0.25 per cent to 1.5125 per cent. Peso Deposits interest rates range from 0.25 per cent to 3.0 per cent.

18. ACCRUED EXPENSES

This account represents:

	2015	2014
Accrued Interest Expense in Financial Liabilities	18,278,041	13,852,663
Litigation/Assets Acquired	13,380,188	13,315,029
Fringe Benefits	10,456,346	28,067,119
Income Tax Payable	10,080,432	2,453,811
Rent	5,536,223	3,702,042
Other Taxes & Licenses	3,893,914	1,569,162
Security, Clerical, Messengerial and Janitorial	3,311,511	2,582,448
Salaries and Wages	3,004,484	2,848,603
Power, Light and Water	844,041	1,355,092
Management and Other Professional Fees	803,017	7,104,832
Repairs and Maintenance	452,111	692,956
Postage, Tel., Cables &Teleg	397,594	737,248
Fuel and Lubricants	138,350	130,076
Fines, Penalties and other charges	11,592	11,592
Others	11,837,094	10,895,181
	82,424,938	**89,317,854**

19. OTHER LIABILITIES

This account comprises:

	2015	2014
Accounts Payable – Others	77,779,202	74,534,560
Withholding tax payable	4,784,669	4,245,822
Inter-office float items	2,805,947	8,280,261
Unclaimed Balances	244,472	188,832
Miscellaneous liabilities	213,807	214,163
Overages	17,175	29,095
Sundry credits	11,063	52,523
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	887,762	598,348
Net of allowance	**86,744,097**	**88,143,604**

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

20. CAPITAL STOCK

The bank is authorized to issue 10,000,000 shares at P100 par value. Total subscribed is 8,802,428 shares amounting to P880,242,883. Five million (5,000,000) shares was subscribed by Philippine Postal Corporation of which 4,200,000 shares or P420,000,000.00 was fully paid. Per Board Resolution No. 2011-274, the Board of Directors of the bank 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 PPSBI per memorandum from the Executive Secretary of the Office of the President of the Philippines dated December 16, 2011. This Fund represents the outstanding balance from P500,000,000.00 previously released by the National Government to PPSB for disbursement to the National Government's microfinance program for the transport sector. Additional issuance of common share of stock for the National Government was made by PPSBI corresponding to the latest appraised value of parcel of land where Head Office is situated per Board Resolution No. 201-142 dated June 10, 2014.

21. RETAINED EARNINGS

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

Particulars	Debit	Credit	Balance
Retained Earnings, beg. 2014			17,326,886
Adjustments:			
Prior period – Directors Disallowance	0	4,011,700	
	0	4,011,700	4,011,700
Restated Retained Earnings, beg			21,338,586
Net Income before restatement			123,135,058
Adjustments:			
Fringe Benefits Socials from branches	40,000		
Representation & Entertainment	66,290		
Trainings & Seminars from branches	236,060		
Reversal of last pay		12,393	
Insurance Expense	33,316		
Income Tax Expense		7,546,189	
Reversal of Income from Gain on Sale of ROPA	392,129		
Reconciling item on Depreciation	9,770,841		
Unrecorded Interest Income		86,310	
Correcting entry on supplies		29,530	
Reversal of Accrual of expenses		1,635,441	
Repairs & Maintenance		34,628	
	10,538,636	9,344,491	(1,194,145)
Restated Net Income for CY 2014			121,940,913
Restated Retained Earnings, end			143,279,499

22. 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.

23. 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 (GRT) and documentary stamp tax (DST).

Income taxes include the corporate income tax and final taxes paid at the rate of 20 per cent, 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.

	2015	2014
Annual/Quarterly Income Taxes (1702)	32,196,992	40,925,063
Percentage Taxes (2551M)	30,676,934	33,710,813
Documentary Stamp Taxes	30,661,587	27,182,592
Income Taxes on Compensation (1601C)	21,559,837	21,932,433
Final Income Taxes (1602)	19,683,434	15,969,563
VAT & Other Percentage Taxes (1600)	6,359,668	4,365,217
Creditable Income Taxes (1601E)	4,331,479	3,576,527
Annual Registration	12,500	12,500
	145,482,431	**147,674,708**

24. 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 P48.021 million and others P11.168 million.

25. OPERATING EXPENSES

	2015	2014 As restated
Compensation and Fringe Benefits	189,623,349	199,335,363
Provision for probable losses	58,178,718	74,952,373
Taxes and Licenses	35,156,546	37,242,655
Rent	29,963,445	28,973,430
Depreciation and Amortization	24,688,900	38,452,668
Insurance	22,303,200	19,294,955
Security, clerical, messengerial and janitorial	20,859,769	19,413,159
Information Technology	19,403,142	20,782,272
Representation & Entertainment	13,113,999	14,076,892
Documentary stamps used	13,058,875	9,898,840
Power, light and water	11,283,151	11,891,523
Management and other professional fees	9,595,151	5,869,899
Travelling expense	6,582,679	5,822,818
Stationeries and supplies used	6,409,848	6,843,717
Repairs and maintenance	5,881,212	5,697,155
Postage, telephone, cable and telegram	4,806,426	5,539,051
Litigation Expense	3,493,793	11,641,556
Fees and commission	2,788,876	2,317,957
Training and Seminars	2,754,063	3,469,890
Supervision fees	2,028,987	2,019,589
Fuel and lubricants	1,927,378	2,795,922
Advertising and publicity	1,430,758	1,094,823
Membership fees and dues	834,273	852,526
Fines, penalties and other charges	316,509	183,016
Donation and charitable contributions	213,015	245,970
Bad debt expense	188,799	0
Periodicals and magazines	113,490	97,994
Impairment Loss	85,400	1,065,266
Miscellaneous expenses	1,064,931	707,999
	488,148,682	**530,579,278**

26. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

	2015	2014
	(percentage)	
Return on Average Equity	13.11	13.62
Return on Average Assets	1.23	1.45
Net Interest Margin	4.96	6.06
Risk Based Capital Adequacy Ratio	11.04	14.59

27. 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 P68.89 million as of December 31, 2015. The loan is secured by REM 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 2015 is P68.886 million which were fully secured and on a current status which represents 1.07 per cent of the Total Loan Portfolio.

28. 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.

29. 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 was lodged under the Unquoted Debt Securities Classified as Loans account and was fully provided with allowance for losses and accruals for the litigation expenses.

30. RECLASSIFICATION OF ACCOUNTS

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