Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A subsidiary of the Philippine Postal Corporation)

For the years ended December 31, 2017 and 2016

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines
Corporate Government Sector
Cluster 1 – Banking and Credit

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of **Philippine Postal Savings Bank, Inc. (PPSBI)**, which comprise the statements of financial position as at December 31, 2017 and 2016, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section, the financial statements present fairly the financial position of **PPSBI** as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Qualified Opinion

Provision for credit losses amounting to P1.287 billion on secured and unsecured past due loans, which were of doubtful collectability was not recognized in 2017. Had the provision for credit losses been recognized in 2017, loans and receivable account and net income for the year would have been decreased by P1.287 billion.

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the PPSBI in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippine Public Sector, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, management is responsible for assessing the PPSBI's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PPSBI or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PPSBI's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee than an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAI, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 PPSBI's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimate and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PPSBI to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 27 to the 2017 financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

COMMISSION ON AUDIT

ROSALINDA T. SILAGAN
OIC - Supervising Auditor
Audit Group D

May 21, 2018

May 16, 2018

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILIPPINE POSTAL SAVINGS BANK, INC.(PPSBI)** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing PPSBI's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PPSBI or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing PPSBI's financial reporting processes.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein and submits the same to the Stockholders, regulators, creditors and other users.

The Commission on Audit (COA), has audited the financial statements of PPSBI in accordance with International Standards of Supreme Audit Institutions (ISSAI), and in its report to the Board of Directors, has expressed its opinion on the fairness of presentation upon completion of such audit.

ALEX V. BUENAVENTURA
Chairman of the Board

RENATO G. EJE, Jr.
President and Chief Executive Officer

PATRIA P. MADRIO
Head, Admin. & Compt. Group

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 As restated
ASSETS			
Cash and cash equivalents	6	93,796,842	97,919,576
Due from Bangko Sentral ng Pilipinas	7	2,848,360,713	1,849,700,615
Due from other banks	8	73,996,036	2,731,871,060
Loans and receivables - net	9	4,508,838,610	5,535,920,575
Loans and receivables arising from RA/CA/PR/SLB	10	330,428,988	78,892,402
Held for trading financial assets	11	47,467,251	48,529,195
Available for sale financial assets	12	526,642,841	547,538,108
Total current assets		8,429,531,281	10,890,371,531
Unquoted debt securities classified as loans	13	50,008,282	50,085,797
Bank premises, furniture, fixtures and equipment - net	14	185,587,251	196,114,353
Non-current assets held for sale	15	59,957,318	41,000,328
Investment property - net	16	215,428,598	220,189,010
Sales contract receivable	17	22,786,375	34,465,101
Other assets - net	18	181,184,484	166,577,561
Total non-current assets		714,952,308	708,432,150
TOTAL ASSETS		**9,144,483,589**	**11,598,803,681**
LIABILITIES AND EQUITY			
Deposit liabilities	19	7,979,186,648	9,723,641,069
Bills payable	20	0	650,000,000
Manager's/Cashier's checks		18,689,569	16,309,768
Accrued taxes and other expenses	21	106,625,013	72,936,556
Total current liabilities		8,104,501,230	10,462,887,393
Unearned income and other deferred credits		59,930,349	59,519,580
Special time deposit		0	40,000,000
Other liabilities	22	138,050,251	69,596,943
Total non-current liabilities		197,980,600	169,116,523
TOTAL LIABILITIES		8,302,481,830	10,632,003,916
EQUITY			
Capital stock	23	820,242,883	820,242,883
Unrealized loss on available for sale financial assets		(54,113,297)	(36,087,676)
Retained earnings unappropriated	25	75,872,173	182,644,558
TOTAL EQUITY		842,001,759	966,799,765
TOTAL LIABILITIES AND EQUITY		**9,144,483,589**	**11,598,803,681**

The Notes on pages 9 to 41 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016 As restated
INTEREST INCOME			
Interest/discount earned on loans & discounts		351,444,787	502,545,424
Interest on investments		18,619,778	11,505,296
Interest income - loans and receivables arising from RA/CA/PR/SLB		7,904,055	1,687,759
Interest on due from Bangko Sentral ng Pilipinas		40,800,351	34,827,568
Interest on deposits with banks		11,424,263	26,550,320
Interest income on sales contract receivable		2,531,923	3,609,543
Others		46	193
		432,725,203	580,726,103
INTEREST EXPENSE			
Interest on deposit liabilities		127,498,083	148,168,713
Provision for losses on accrued interest income		(19,460)	7,692,706
		127,478,623	155,861,419
NET INTEREST INCOME		305,246,580	424,864,684
OTHER INCOME			
Fees and commission income		23,687,327	28,684,700
Gain/loss from sale/derecognition of non-financial assets		1,185,675	6,169,379
Gain on financial assets and liabilities held for trading		(1,010,351)	450,917
Gain from sale/redemption/derecognition of non-trading financial assets & liabilities		0	5,898,334
Foreign exchange (loss)/gain		229,631	(10,863)
Recovery on charged-off assets		20,798,792	570,604
Miscellaneous income	28	51,973,905	52,282,966
		96,864,979	94,046,037
OPERATING EXPENSES	29	508,883,944	543,344,181
NET LOSS BEFORE TAX		(106,772,385)	(24,433,460)
Provision for Income Tax		0	2,441,573
NET LOSS AFTER TAX		(106,772,385)	(26,875,033)
OTHER COMPREHENSIVE LOSS			
Unrealized loss on available for sale financial assets	24	(18,025,621)	(38,497,480)
TOTAL COMPREHENSIVE LOSS		(124,798,006)	(65,372,513)

The Notes on pages 9 to 41 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENTS OF CHANGES IN EQUITY
December 31, 2017 and 2016
(In Philippine Peso)

Note	Capital Stock 23	Other Comprehensive Income/ (Loss)	Retained Earnings Unappropriated 25	Total Equity
Balance, January 1, 2016 before restatement	**800,242,883**	**2,409,804**	**209,519,591**	**1,012,172,278**
Issuance of capital stock	20,000,000			20,000,000
Unrealized loss on available for sale financial assets		(38,497,480)		(38,497,480)
Balance, January 1, 2016 as restated	820,242,883	(36,087,676)	209,519,591	993,674,798
Net Loss, 2016 before restatement			(11,907,372)	(11,907,372)
Net adjustments			(14,967,661)	(14,967,661)
Net Loss, 2016 as restated			(26,875,033)	(26,875,033)
Balance, December 31, 2016 as restated	**820,242,883**	**(36,087,676)**	**182,644,558**	**966,799,765**
Unrealized loss on available for sale financial assets		(18,025,621)		(18,025,621)
Net loss, 2017			(106,772,385)	(106,772,385)
Balance, December 31, 2017	**820,242,883**	**(54,113,297)**	**75,872,173**	**842,001,759**

The Notes on pages 9 to 41 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2017 and 2016
(In Philippine Peso)

	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Withdrawals by clients		(1,744,454,421)	(1,041,620,015)
Interest income, fees and commission received		518,403,216	683,618,255
Collection of loans and receivables		984,278,044	328,344,839
Fund advances to customers and employees		(30,914,893)	(956,681)
Profit from sale/redemption of assets/investments		1,185,675	5,898,334
Recoveries on loans previously written off		20,798,792	570,604
Loss/income from sale of assets held for trading		(1,010,351)	450,917
Deposits to/Proceeds from BSP for regulatory or monetary control purposes		(1,250,196,684)	808,420,820
Proceeds of Matured Placements/Deposits to other banks		2,657,875,024	(120,556,130)
Cash payments to suppliers		(136,771,123)	(180,688,547)
Cash payments to employees		(206,505,727)	(229,138,878)
Interest and finance charges		(129,577,906)	(151,453,901)
Prepaid taxes, licenses and other expenses		11,745,445	(467,363)
Cleared returned checks and other cash items		(445,762)	(118,581)
Proceeds from sale/Purchase of financial assets		3,931,590	(691,020,058)
Proceeds of unidentified cleared checks		20,823	549,718
Payment of taxes		(24,107,387)	(61,526,946)
Collection of directors' disallowances and other expenses		0	110,000
Payment of litigation/asset acquired expenses		(32,120,923)	(3,861,660)
Transfer of funds from/to regional branches		56,033,066	(2,323,755)
Payment/Proceeds of short term borrowings		(650,000,000)	650,000,000
Net cash used in operating activities		48,166,498	(5,769,028)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of unquoted debt securities classified as loans		0	10,180,655
Rental income		4,767	16,951
Acquisition of property , equipment and intangibles		(24,202,357)	(39,706,798)
Collection of sales contract receivables		11,678,726	6,169,379
Net cash used/provided by investing activities		(12,518,864)	(23,339,813)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of long term borrowings		(40,000,000)	0
Issuance of common shares		0	20,000,000
Net cash provided by financing activities		(40,000,000)	20,000,000
Effects of exchange rate changes on cash and cash equivalents		229,631	(10,863)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(4,122,734)**	**(9,119,704)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6	**97,919,576**	**107,039,280**
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	**93,796,842**	**97,919,576**

The Notes on pages 9 to 41 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of the Philippine Postal Corporation)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts rounded off in Peso except when otherwise stated)

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, 2017, the Bank had 406 employees and operated twenty five (25) branches and six (6) Micro Banking Offices (MBOs), namely:

Northern Luzon Area:

1. Tuguegarao, Cagayan Branch	4.1. MBO Binmaley
2. Baguio Branch	4.2. MBO Mapandan
3. Asingan, Pangasinan Branch	
4. Dagupan, Pangasinan Branch	
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 Bombon
2. Tigaon, Camarines Sur Branch	2.1. MBO San Jose
3. Legaspi, Albay Branch	3.1. MBO Bacacay
4. Sorsogon Branch	3.2. MBO Malinao

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. Dipolog Branch
3. Cagayan de Oro Branch
4. Manolo Fortich, Bukidnon Branch

In December 2016, the National Government directed the Land Bank of the Philippines (LBP) to initiate the acquisition of Postbank as its subsidiary, with the plan of eventually converting it to a Bank for Overseas Filipino Workers (OFWs).

The said plan was also made public via pronouncements in major broadsheets by the Secretary of Finance.

This paved way for the conduct of due diligence on bank operations which started in January 2017 and preliminary discussions between LBP and Postbank officials to implement the government's directive.

On September 26, 2017, President Rodrigo Duterte issued Executive Order (EO) No. 44, which mandates the PPC and the Bureau of Treasury to transfer their Postbank shares to Landbank at zero value. The EO further stated that Postbank will be converted into the Overseas Filipino Bank. The Bank will be established as a savings bank dedicated to provide financial products and services tailored to the requirements of overseas Filipinos, and focused on delivering quality and efficient foreign remittance services.

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 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 year.

Financial statements are presented in Philippine peso, which is the functional currency.

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

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers and loans are recognized when cash is received or released to the borrowers.

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 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 is 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 for Trading (HFT)

This refers to the debt and equity securities that are:

b.1. Acquired principally for the purpose of selling or repurchasing them in the near term; or

b.2. Part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

c. 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.

d. Unquoted Debt Securities Classified as Loans

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

e. 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 Held for 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, 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 which 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 loans 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. Loans classified as 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.

Loan Loss Estimation Methodology, Provisioning and Allowance for Credit Losses:

a. The Bank develops and document a sound loan loss methodology that can reasonably estimate provisions for losses on loans and other credit accommodations and risk assets in a timely manner, using their experience and research and this guidance to ensure that the specific and collective allowance for credit losses (ACL) are adequate and approximates the expected losses in their credit portfolio.

The Bank's loan loss methodology considers the following:

a.1. Written policies and procedures for the credit risk systems and controls inherent in the methodology, including roles and responsibilities of the PPSBI's board of directors and senior management;

a.2. A detailed analysis of the entire loan portfolio, including off-balance sheet facilities, performed on a regular basis;

a.3. A realistic view of its lending activities and uncertainty and risks inherent in those activities in preparing accounting information. Loan accounting policies and practices are selected and applied in a consistent way that reasonably assures that loan and loan loss provision information is reliable and verifiable;

a.4. Identification of loans to be evaluated individually and segmentation of the remaining portfolio into groups of loans with similar credit risk characteristics for collective assessment.

a.4.a. Individually assessed loans. The Bank established a materiality threshold for significant credit exposures that will warrant an individual assessment, which threshold is regularly reviewed.

The loan loss estimates reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of the evaluation date. The following factors are relevant in estimating loan losses for individually assessed loans:

a.4.a.1. Significant financial difficulty of the borrower;

a.4.a.2. Probable bankruptcy or other financial reorganization of the borrower;

a.4.a.3. Breach of contract, such as a default or delinquency in interest or principal payments; or a.4. a.4 Concession granted by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, which would not otherwise be considered.

The methodology includes procedures describing the determination and measurement of the amount of any impairment, the impairment measurement techniques available and steps performed to determine which technique is most appropriate in a given situation.

a.4.b. Collectively assessed loans. The Bank uses different methods to group loans for the purpose of assessing credit risk and valuation. More sophisticated credit risk assessment models or methodologies for estimating expected future cash flows, including credit risk grading processes, may combine several of the following characteristics: loan type, product type, market segment, estimated default probabilities or credit risk grading and classification, collateral type, geographical location and past-due status.

Estimated credit losses reflect consideration of the Bank's historical net charge-off rate of the groups, adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans in these groups as of the evaluation date, and applied consistently over time;

a.4.b1. Methods used to determine whether and how loans individually evaluated, but not considered to be individually impaired, are grouped with other loan (excluding individually assessed loans that are impaired) that share similar credit risk characteristics for collective impairment evaluation;

a.4.b.2. The quality and net realizable values of physical collateral and other financial guarantees and credit risk mitigants incorporated in the loan agreement, where applicable;

a.4.b.3. Address the methods used to validate models for credit risk assessment;

a.4.b.4 The analyses, estimates, reviews and other provisioning methodology functions are performed by competent and well-trained personnel and be well documented, with clear explanations of the supporting analyses and rationale; and a.4.b.5. Use experienced credit judgment. Assessment of expected losses are not based solely on prescriptive rules or formula but must be enhanced with experienced credit judgment by the appropriate levels of management in as much as historical loss experience or observable data may be limited or not fully relevant to current circumstances. However, the scope for actual discretion is prudently within the following constraints:

a.4.b.5.a. Experienced credit judgments are subject to established policies and procedures;

a.4.b.5.b. With approved and documented analytical framework for assessing loan quality applied consistently over time; Estimates are based on reasonable and verifiable assumptions and supported by adequate documentation; and

a.4.b.5.c. Assumptions concerning the impact on borrowers of changes in general economic activity, both favorable and unfavorable, are made with sufficient prudence.

The method of determining loan loss provisions reasonably assure the timely recognition of loan losses. While historical loss experience and recent economic conditions are a reasonable starting point for the institution's analysis, these factors are not, by themselves, sufficient basis to determine the appropriate level of aggregate loan loss provisions. Management also considers any current factors that are likely to cause loan losses to differ from historical loss experience, including changes in the following:

a. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices;

b. International, national and local economic and business conditions and developments, including the condition of various market segments;

c. Trend, volume and severity of past due loans and loans graded as low quality, as well as trends in the volume of impaired loans, troubled debt restructurings and other loan modifications;

d. The experience, ability, and depth of lending management and staff;

e. Changes related to new market segments and products;

f. Quality of the Bank's loan review system and the degree of oversight by senior management and board of directors;

g. The existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

h. Credit risk profile of the loan portfolio as a whole as well as the effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Bank's current portfolio.

Experienced credit judgment is also used to determine an acceptable period that will yield reliable historical loss rates as loss rate periods is not restricted to a fixed time period to determine the average historical loss experience for any group of loans with similar credit risk characteristics.

PPSBI maintains sufficient historical loss data over a full credit cycle to provide robust and meaningful statistical loan loss estimates for establishing the level of collective impairment losses for each group of loans with similar credit risk characteristics. When applying experienced credit judgment, the Bank provide a sound rationale for excluding any historical loss data that is deemed not representative of the performance of the portfolio.

b. Whenever there are credit operations that may not economically justify a more sophisticated loan loss estimation methodology or the Bank's practices fell short of expected standards will, at a minimum, be subject to the regulatory guidelines in setting up allowance for credit losses prescribed in Appendix 18 of Manual of Regulations for Banks (MORB): Provided, that the Bank will notify the Bangko Sentral, through their respective Central Points of Contact, of this preference. Nevertheless, the Bank still uses experienced credit judgment, subject to the criteria prescribed in Subsection X178.17 of the MORB, in determining the ACL.

c. The Bank sets up general loan loss provision equivalent to one percent (1%) of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent (<1%), less loans which are considered non-risk under existing laws, rules and regulations.

d. PPSBI ensures the adequacy of the individual and collective ACL for the entire loan portfolio. The Bank have a policy for the regular review of the ACL, which are conducted at least semi-annually after considering results of the credit review, level of classified loans, delinquency reports, historical losses and market conditions.

Failure to make adequate provisions for estimated future losses results in material misrepresentation of the Bank's financial condition.

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

a. The following are 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 are 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 is 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 is 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 is 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	From maturity date to payment date
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 rest with the same approving authority which approved the loan.

e. When the account turned past due, real estate tax and insurance premium is 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 is imposed.

g. Past due interest is computed on loans considered past due. Interest on past due loans (amortized) before the maturity date is computed as is using the interest rate indicated in the PN. Interest on the past due loans after the maturity date is 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 is computed on delayed amortization or, in case of past due accounts, on outstanding balance. Amortization 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 is deemed to have been received on the original due date. No penalty charges is 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 on Revenue.

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)

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 carrying amount. 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 reclassifies the entire portfolio to AFS. The investments are consequently 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 without quoted market prices 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, operational, IT, foreign currency, and interest rate risks.

Decisions in relation to risk management are made by the Corporate Governance and Risk Management Committee (CGRMC), 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.

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 align 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 respecting 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.

<u>Credit Risk</u>

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 (SBL) prescribed by the 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 Manual of Lending Operations (MOLO). 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 shows the concentration of credit risk by industry at the reporting date (amounts in million pesos):

	2017	2016
Real Estate Activities	1,463	1,503
Wholesale and Retail Trade	954	1,219
Salary-Based General–Purpose Consumption Loans	657	836
Public Adm. and Defense/Compulsary Social Sec.	350	431
Financial and Insurance Activities	334	421
Agriculture, Hunting and Forestry	288	223
Administrative and Support Service Activities	177	286
Construction	143	174
Education	122	154
Mining and Quarrying	75	153
*Others	305	468
	4,868	5,868
Allowance for Credit Losses	337	295
	4,531	5,573

* Others include the following Sector – Other Service Activities, Arts, Entertainment and Recreation, Manufacturing, Transportation and Storage, Accommodation and Food Service Activities, Water Supply, Sewerage and Waste Management, Motor Vehicle Loans, Professional, Scientific and Technical Activities, Human Health and Social Work Activities, Information and Communication, Electricity, Gas, Steam and Air conditioning Supply and Activities of Extra-Territorial Org. and Bodies.

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

	2017	2016
Neither past due nor impaired	2,198	3,642
Past Due but not impaired	97	121
Impaired	2,573	2,105
	4,868	5,868
Less: Specific allowance for credit losses	337	295
	4,531	5,573

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

	2017	Per cent	2016	Per cent
Secured	2,148	83	1,610	76
Unsecured	425	17	495	24
	2,573	100	2,105	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.

Treasury 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 an outstanding exposure of P 47 million under the Held for Trading (HFT) portfolio as of December 31, 2017.

The Bank's government securities classified under Available for Sale Securities (AFSS) which have an average yield to maturity (YTM) of 3.27 per cent registered an unrealized loss / marked to market loss of P54.113M for a P527M portfolio.

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, 2017 (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*	94	0	0	0	94
Due from BSP & other banks*	2,922	0	0	0	2,922
Investment securities	0	97	0	527	624
Loans and receivables	576	433	950	2,880	4,839
Other assets*	29	10	79	547	665
	3,621	540	1,029	3,954	9,144
Liabilities					
Deposit liabilities*	6,727	660	592	0	7,979
Accrued interest expense*	10	3	0	0	13
Other liabilities*	0	0	0	310	310
	6,737	663	592	310	8,302
Equity*				842	
Net Liquidity surplus (gap)	(3,116)	(123)	437	2,802	
Cumulative gap	(3,116)	(3,239)	(2,802)	0	

* Includes accounts in Foreign Currency Deposit Unit (FCDU)/Expanded Foreign Currency Deposit Unit (EFCDU).

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.

When measuring interest rate risk, we consider liabilities as funding the Bank's asset (inversely related to liquidity risk, where we looked at assets as sources of funds to pay off maturing liabilities). The balance sheet is pulled apart into time buckets, showing when the assets will and liabilities will reprice or change their interest rates. 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, 2017 (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 to 5years	Over 5 years to 15 years	Over 15 years	Total
FINANCIAL ASSETS								
Due from other banks	73	1	0	0	0	0	0	74
Total investments	0	0	97	0	0	527	0	624
Total loans and receivables	834	145	245	289	163	505	10	2,191
Sales contract receivables	0	0	0	4	19	0	0	23
Total Financial Assets	907	146	342	293	182	1,032	10	2,912
FINANCIAL LIABILITIES								
Deposit liabilities	4,440	2,287	660	497	95	0	0	7,979
Total Financial Liabilities	4,440	2,287	660	497	95	0	0	7,979
Repricing Gap	**(3,533)**	**(2,141)**	**(318)**	**(204)**	**87**	**1,032**	**10**	**(5,067)**

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	2017	2016
Cash on Hand	93,749,842	97,236,828
Petty Cash Fund	47,000	39,000
Checks and Other Cash Items	0	643,748
	93,796,842	**97,919,576**

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.

	2017	2016
Reserve Deposit Account	2,124,000,000	1,270,000,000
Demand Deposit Account	724,360,713	579,700,615
	2,848,360,713	**1,849,700,615**

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:

	2017	2016
United Coconut Planters Bank (UCPB)	41,321,550	214,220,188
Landbank of the Philippines	17,423,859	443,167,189
Philippine Business Bank	6,217,334	11,280,068
China Bank	4,122,923	248,996,386
Rizal Commercial Banking Corporation	3,492,309	2,956,806
Philippine National Bank (PNB)	782,109	11,574,094
Metro Bank and Trust Company	504,339	199,526,400
Banco de Oro Unibank, Inc.	65,508	61,379
Philippine Savings Bank	39,111	136,348
Development Bank of the Philippines	26,994	27,949
Maybank	0	645,980,535
Security Bank	0	201,288,444
Malayan Bank	0	201,086,875
Union Bank	0	200,952,800
East West Bank	0	199,940,017
Asia United Bank	0	150,675,582
	73,996,036	**2,731,871,060**

9. LOANS & RECEIVABLES

This account consists of:

	2017	2016 (As restated)
Loans to Private Corporation	2,202,059,848	2,602,327,102
Small & Medium Enterprises	817,500,170	933,113,887
Consumption loans	668,086,194	850,629,878
Agrarian Reform & other Agricultural Loan	395,050,230	413,021,660
Contract to Sell	343,113,514	365,403,240
Loans to Government	257,671,914	380,076,388
Loans to Individual for Housing Purposes	86,079,619	107,428,159
Loans to Individual for Other Purposes	73,490,529	82,345,535
Microfinance Loans	25,483,229	134,437,435
	4,868,535,247	**5,868,783,284**
Allowance for Losses	(359,696,637)	(332,862,709)
Net of Allowance	**4,508,838,610**	**5,535,920,575**

As to Status:

	2017	2016
Current Loans	2,294,899,114	3,763,119,508
Non-Performing Loans	2,573,636,133	2,105,663,776
	4,868,535,247	**5,868,783,284**

As to Security:

	2017	2016
Secured Loans	3,539,738,064	4,087,555,859
Unsecured Loans	1,328,797,183	1,781,227,425
	4,868,535,247	**5,868,783,284**

As to Type of Security:

	2017	2016
Real Estate Mortgage	2,666,514,177	3,369,694,665
Other Collaterals	873,223,887	717,861,194
	3,539,738,064	**4,087,555,859**

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.

In October 2017, pursuant to ManCom Resolution no. 299-2017, it was moved by the Committee to direct all the Lending Groups/ Branches to be guided on the granting of loans as follows:

- No new and additional loans shall be granted. Increase in exposures in terms of aggregate amount on a per borrower/ group basis shall be considered a willful violation;

- Renewal of the existing exposures, particularly if the renewal per se is nothing but normal considering its nature, is acceptable.

10. LOANS AND RECEIVABLES ARISING FROM RA/CA/PR/SLB

This pertains to loans arising from repurchase agreement with Bangko Sentral ng Pilipinas.

11. HELD FOR TRADING FINANCIAL ASSETS

This comprises securities purchased from Rizal Commercial Banking Corporation which are issued by the Bureau of the Treasury.

12. AVAILABLE FOR SALE FINANCIAL ASSETS

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

	2017	2016
Rizal Commercial Banking Corporation	295,913,596	300,182,352
East West Banking Corporation	93,758,651	93,940,978
Security Bank Corp.	90,091,269	106,444,289

	2017	2016
Chinabank	46,879,325	46,970,489
	526,642,841	**547,538,108**

13. UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS

These are investments in government securities 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.

These securities were purchased for compliance purposes with Philippine Commercial Capital, Inc..

14. 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
1-Jan-17							
Cost (restated)	131,008,000	41,501,900	58,631,042	13,772,938	136,351,397	26,927,800	408,193,077
Additions	0	0	1,027,783	1	1,175,216	187,859	2,390,859
Disposals	0	0	(1,159,367)	0	(4,629,273)	(644,874)	(6,433,504)
Reclassifications	0	0	2,148,445	78,551	(230,744)	183,255	2,179,507
31-Dec-17	131,008,000	41,501,900	60,647,913	13,851,490	132,666,596	26,654,040	406,329,939
1-Jan-17							
Accumulated Depreciation (restated)	0	11,283,718	48,686,602	12,183,704	120,408,895	19,515,805	212,078,724
Provisions	0	2,821,419	2,786,272	432,390	4,853,339	1,707,458	12,600,878
Disposals	0	0	(1,198,195)	0	(972,038)	(585,584)	(2,755,817)
Reclassifications	0	0	2,723,750	36,816	(4,115,457)	173,794	(1,181,097)
31-Dec-17	0	14,105,137	52,998,429	12,652,910	120,174,739	20,811,473	220,742,688
Carrying Amount							
31-Dec-17	**131,008,000**	**27,396,763**	**7,649,484**	**1,198,580**	**12,491,857**	**5,842,567**	**185,587,251**
Carrying Amount							
31-Dec-16 (restated)	131,008,000	30,218,182	9,944,440	1,589,234	15,942,502	7,411,995	196,114,353

PPSBI building was acquired thru Dacion En Pago from Philippine Postal Corporation on November 02, 2012 with booked value amounting to P37,567,000.

15. 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.

	2017	2016
Head Office – Manila	71,732,956	46,617,105
Accumulated Depreciation	(9,994,797)	(5,616,777)
	61,738,159	41,000,328
Allowance for Probable Losses	(1,780,841)	0
Net of allowance	**59,957,318**	**41,000,328**

16. INVESTMENT PROPERTY

Investment property represents 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.

	2017	2016
Head Office – Manila	248,883,345	243,893,515
Accumulated Depreciation	28,243,976	19,329,012
	220,639,369	224,564,503
Allowance for Probable Losses	5,210,771	4,375,493
Net of allowance	**215,428,598**	**220,189,010**

17. 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.

	2017	2016
Sales Contract Receivable	22,786,375	34,465,101
Less: Provision for Credit Losses	0	0
Net Amount	**22,786,375**	**34,465,101**

18. OTHER ASSETS

This account is composed of the following:

	2017	2016 As restated
Miscellaneous assets	61,942,935	70,203,535
Accounts receivables	56,893,397	23,483,921
Accrued interest income from financial assets	45,034,441	74,431,389
Other intangible assets	23,236,965	12,244,048
Prepaid expenses	4,285,291	16,030,736
Stationery and supplies on hand	3,835,605	4,215,901
Deferred tax asset	2,539,789	2,494,583
Documentary stamps on checks	1,899,494	1,715,095

	2017	2016 As restated
Returned checks and other cash items	1,370,032	924,270
Other investments	153,333	153,333
Sundry debits	71,762	92,586
Shortages	1,500	0
	201,264,544	205,989,397
Other Assets - Allowance for Losses	20,080,060	39,411,836
	181,184,484	**166,577,561**

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

In 2017, payments amounting to P52.16 million for our ongoing LMS/GL and Deposit System projects, were temporarily lodge to Miscellaneous Assets account.

19. DEPOSIT LIABILITIES

	2017	2016
Domestic:		
Demand deposits	471,853,111	373,644,104
Savings deposits	7,233,914,508	6,210,047,257
Time certificate of deposits	269,085,885	496,327,514
Foreign:		
Demand deposits		
Savings deposits	2,168,556	2,301,048
Time certificate of deposits	2,164,588	2,641,321,146
	7,979,186,648	**9,723,641,069**

Domestic deposit liabilities earns annual fixed interest rates ranging from 0.25 to 0.65 per cent and from 0.25 to 3.05 per cent in 2017 and 2016. Foreign deposits range from 0.25 to 1.375 per cent in 2017 and 2016, respectively.

20. BILLS PAYABLE

These are interbank term loans from other banks and non-bank financial institutions with quasi-banking authority, other than those payable on call/demand.

	2017	2016
MAYBANK	0	500,000,000
CHINA BANK	0	150,000,000
	0	**650,000,000**

21. ACCRUED EXPENSES

This account represents:

	2017	2016 As restated
Litigation/assets acquired	18,636,227	12,075,254
Management and other professional fees	15,471,900	2,092
Fringe benefits	14,613,907	13,641,796
Accrued interest expense in financial liabilities	12,913,031	14,992,853
Rent	11,555,798	9,393,556
Security, clerical, messengerial and janitorial	6,494,842	2,144,078
Salaries and wages	2,853,047	1,205,352
Other taxes and licenses	1,705,410	2,801,265
Power, light and water	692,251	748,732
Postage, telephone, cables and telegrams	570,305	592,812
Repairs and maintenance	421,761	411,400
Fuel and lubricants	106,253	166,911
Fines, penalties and other charges	12,900	14,592
Others*	20,577,381	14,745,863
	106,625,013	**72,936,556**

*Others include accruals for internet connection and subscriptions, PDIC Insurance, offsite storage services, disaster recovery collocation site services, preventive maintenance services for data center's UPS, air conditioning units and ATM units, card embossing services, travelling expenses, rental of PCSO with PPC Baguio, photocopy charges, advertising expenses, membership fees and representation expenses.

22. OTHER LIABILITIES

This account comprises:

	2017	2016 As restated
Accounts Payable – Others	74,072,368	63,091,875
Inter-office float items	56,515,259	482,192
Withholding tax payable	4,898,501	4,412,558
SSS, PHIC, Employee Compensation and Pag-ibig Fund Payable	1,193,915	1,039,313
Unclaimed Balances	1,128,684	292,762
Miscellaneous liabilities	205,941	211,455
Sundry credits	28,322	55,960
Overages	7,261	10,828
	138,050,251	**69,596,943**

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.

23. CAPITAL STOCK

The Bank is authorized to issue 10,000,000 shares at P100.00 par value. Total subscribed is 8,802,428 shares amounting to P880,242,883. Five million (5,000,000) shares were subscribed by Philippine Postal Corporation of which P440,000,000.00 was fully paid. Subscription receivable of P60,000,000.00 is still outstanding.

Additional issuance of 1,310,080 common shares 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.

The Board of Directors of the Bank, through Board Resolution No. 2011-274, approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the cash balance of the Project Drive Fund (PDF) amounting to P249,234,883 or equivalent to 2,492,348 shares last 2011. 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.

The Fund totaling P500,000,000.00 was released by the National Government to PPSBI for the former's microfinance program for the transport sector.

In September 2017, the President of the Philippines, through E.O. 44, directed the Bank to return to the National Treasury (NT) the balance amounting to P249.23 million from the previously released P500 million to fund the PDF.

On January 19, 2018 pursuant to EO 44, the Bank transferred to the National Treasury the amount of P249,234,883 which is the equivalent value of the Capital Stock issued for the remaining balance of the PDF.

24. UNREALIZED GAINS/ LOSSES ON AFS FINANCIAL ASSETS

This account refers to the gains and losses from marking to market valuation of AFS securities which is booked on a daily basis.

25. RETAINED EARNINGS UNAPPROPRIATED

In consonance with PAS 8, the balance of this account as of December 31, 2016 were restated for prior period adjustments. The adjustments principally relate to reversal of accrued interest income, reversal of erroneous recordings, disallowances, reclassification of various accounts, recognition of expenses and the write-off of non-performing loans.

Retained earnings of the Bank as December 31, 2016 have been restated as follows:

Particulars	Debit	Credit	Balance
Retained earnings, beg. 2016 before restatement			209,519,591
Net loss before restatement			(11,907,372)
Adjustments:			
Other income	-	26,466	

Particulars	Debit	Credit	Balance
Reclassification of BPFFE	1,588,567	70,654	
Compensation and fringe benefits	184,615	40,000	
Rental charges	7,764,364	985,212	
Prepayments	202,686	-	
Electricity charges	-	554	
Provisions for probable losses	-	255,514	
Messengerial, janitorial expenses	125,000		
Provision for income tax	-	2,484,536	
Reversal of capitalized int. charged on income	8,965,365	-	
	18,830,597	3,862,936	(14,967,661)
Restated net loss for FY 2016			(26,875,033)
Restated retained earnings, end			182,644,558

	Balance before restatement	Debit/ (Credit)	Restated Balance
BPFFE - net	197,632,266	(1,517,913)	196,114,353
Compensation and fringe benefits	214,010,367	347,301	214,357,668
Rent	33,313,395	6,779,152	40,092,547
Power, light and water	10,971,438	(554)	10,970,884
Provision for probable losses	57,886,486	(255,514)	57,630,972
Security, clerical, messengerial and janitorial	19,728,490	125,000	19,853,490
Provision for income tax	4,926,109	(2,484,536)	2,441,573
Interest/discount earned on loans & discounts	(511,510,789)	8,965,365	(502,545,424)
Miscellaneous income	(52,256,500)	(26,466)	(52,282,966)

26. 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 to an amount equivalent to 33 per cent of interest income subject to final tax.

	2017	2016
Documentary Stamp Taxes	25,856,186	33,250,701
Income Taxes on Compensation (1601C)	23,739,959	24,171,931
Final Income Taxes (1602)	21,171,780	21,825,586
Percentage Taxes (2551M)	18,175,412	25,427,259
VAT & Other Percentage Taxes (1600)	3,823,389	5,156,209
Creditable Income Taxes (1601E)	3,130,199	4,046,943
Annual Registration	12,500	12,500
Annual/Quarterly Income Taxes (1702)	0	4,926,109
	95,909,425	118,817,238

27. SUPPLEMENTAL INFORMATION ON REVENUE REGULATION

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulation to be disclosed as part of the notes to financial statements.

Requirement under RR 15-2010

Documentary stamp tax

The documentary stamp tax (DST) on loan instruments and other transactions subject thereto for the tax period 2017 are as follows:

Documents/Transactions	DST Paid
Loan Instruments	5,951,637
Cert. of Time Deposits/Other Deposits	19,891,874
Certification	12,675
	25,856,186

Other taxes and licenses

Taxes and licenses presented as part of "Operating Expense" accounts in the statement of comprehensive income includes the following:

a.	Local	
	Annual Business Taxes	3,325,418
	Business Tax for ATM	11,499
	Barangay Business Clearance	21,496
	Fire Inspection Fee	23,596
	Real Property Tax	118,313
	Community Tax	13,098
	Mayor's Permit	3,100
	Regulatory Fee	5,750
	Other Fees	14,366
	Building Safety Inspection Fee	6,089
	Sanitary Fee	100
	Garbage Fee	418
	Personnel	400
	Health	400
	Plate and Sticker	50
	Police Clearance Fee	1,200
	Zoning Inspection Fee	20
	Drug Test	200
	Tax for generator	3,016
	Electrical permit	5,747
	Registration	23,122
b.	National	
	BIR Annual Registration	12,500
	Percentage Taxes	18,175,413

Withholding Taxes

The amount of withholding taxes paid/accrued for the year amounted to:

i. Tax on compensation and benefits	23,739,959
ii. Creditable withholding taxes	3,130,199
iii. Final withholding taxes	
(i) Final income taxes	21,171,780
(ii) Final withholding VAT	3,823,389

28. 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 P47.901 million and on others amounted to P4.072 million.

29. OPERATING EXPENSES

	2017	2016 As restated
Compensation and fringe benefits	205,492,179	214,357,668
Information technology	32,804,331	28,984,278
Rent	32,437,553	40,092,547
Litigation expense	32,120,923	4,108,871
Provision for probable losses	28,649,142	57,630,972
Depreciation and amortization	27,371,642	27,519,473
Insurance	23,383,882	28,429,005
Taxes and licenses	23,011,532	32,005,318
Security, clerical, messengerial and janitorial	20,011,990	19,853,490
Management and other professional fees	16,204,229	13,013,125
Documentary stamps used	14,510,938	14,495,390
Power, light and water	10,994,548	10,970,884
Representation & entertainment	9,708,048	12,459,711
Stationeries and supplies used	6,132,496	7,303,809
Travelling expense	4,927,480	7,048,730
Postage, telephone, cable and telegram	4,776,581	4,921,759
Repairs and maintenance	4,405,733	5,724,742
Impairment loss	2,616,118	343,806
Supervision fees	2,476,498	2,273,784
Fees and commission	1,724,090	2,770,160
Training and seminars	1,654,093	3,820,793
Fuel and lubricants	1,651,982	1,756,946
Membership fees and dues	720,708	1,293,424
Advertising and publicity	191,037	750,260
Fines, penalties and other charges	144,040	492,900
Periodicals and magazines	111,968	116,227
Donation and charitable contributions	25,192	64,089

	2017	2016 As restated
Miscellaneous expenses	624,991	742,020
	508,883,944	**543,344,181**

30. BASIC QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

	2017	2016
	(In percentage)	(In percentage)
Return on Average Equity	-11.8	-1.13
Return on Average Assets	-1.04	-0.10
Net Interest Margin	3.09	3.70
Risk Based Capital Adequacy Ratio	6.63	5.31

31. 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 45.38 million as of December 31, 2016. 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 loan was already settled as of year ended 2017.

32. EMPLOYEE BENEFITS

Retirement/Separation Benefits

The Bank's Separation Plan per Board Resolution no. 2010-199 dated September 23, 2010, entitles all permanent and regular employees hired as of August 31, 2010 to the separation benefits as follows:

Length of service	Amount to be received
5-10 years	75% of basic salary per year of service
More than 10 years-15 years	100% of basic salary per year of service
More than 15 years-20 years	125% of basic salary per year of service
More than 20 years	150% of basic salary per year of service

A fraction of six (6) months will be considered as one (1) year.

Payment of retirement/separation benefits is charged to current operations.

Accrued Sick Leaves

This represents the cash value of the accumulated sick leave credits of the employees with provision to monetize a maximum of 15 days in excess of 90 days accumulated sick leave credits within the year per existing policy.

33. 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.

34. 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.

35. RECLASSIFICATION OF ACCOUNTS

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

36. AUTHORITY TO ISSUE FINANCIAL STATEMENTS

As per Board of Directors' Resolution No. 2018-55 entitled "RELEASE of FS to COA", which contains its 2017 Financial Statements, was presented to and duly confirmed and noted by the Board of Directors during the 3rd Regular Meeting of the Board of Directors of Philippine Postal Savings Bank, Inc. held on April 6, 2018.

37. EVENTS AFTER THE REPORTING DATE

On January 5, 2018, the PPSBI registered with the Securities and Exchange Commission the Amended Articles of Incorporation bearing the new corporate name.

The Bangko Sentral ng Pilipinas through its Circular Letter no. CL-2018-007 dated 18 January 2018, approved the change of corporate name of the PPSBI to "Overseas Filipino Bank, Inc., a Savings Bank of LANDBANK".

On the same day, President Duterte led the launching of the Overseas Filipino Bank (OFB) at the Postbank Center in Manila.