

EXECUTIVE SUMMARY

INTRODUCTION

The Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Philippine Postal Corporation (PPC) re-established and re-opened by virtue of PPC Board Resolution No. 94-34 dated February 24, 1994 in fulfillment of the intents and purposes of R.A. No. 7354, otherwise known as Postal Services 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 (BSP) 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. 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.

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 to the conduct of due diligence on the Bank's 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 PPSBI shares to LBP at zero value. The EO further stated that Postbank will be converted into the Overseas Filipino Bank (OFB). It 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.

As at December 31, 2017, the Bank has 406 employees and 25 branches nationwide. Its principal place of business is at Liwasang Bonifacio, Intramuros, Manila.

SCOPE OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of PPSBI for the period January 1 to December 31, 2017 in accordance with the International Standards of Supreme Audit Institutions (ISSAI) to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2017 and 2016. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2017	2016 As Restated	Increase/ (Decrease)
Resources	9,144,483,589	11,598,803,681	(2,454,320,092)
Liabilities	8,302,481,830	10,632,003,916	(2,329,522,086)
Equity	842,001,759	966,799,765	(124,798,006)

II. Comparative Results of Operations

Particulars	2017	2016 As Restated	Increase/ (Decrease)
Income	529,590,182	674,772,140	(145,181,958)
Personal services	205,492,179	214,357,670	(8,865,491)
Maintenance and other operating expenses	303,391,765	331,428,084	(28,036,319)
Financial expenses	127,478,623	155,861,419	(28,382,796)
Total expenses	636,362,567	701,647,173	(65,284,606)
Net income	(106,772,385)	(26,875,033)	(79,897,352)
Other comprehensive income(loss)	(18,025,621)	(38,497,480)	20,471,859
Total comprehensive income	(124,798,006)	(65,372,513)	(59,425,493)

III. Comparative Budget and Actual Expenditures

	2017		2016	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	228,736,098	205,492,179	247,843,785	214,357,670
Maintenance & other operating expenses	321,009,694	303,391,765	436,629,968	331,428,084
Financial expenses	110,956,903	127,478,623	110,424,659	155,861,419
Capital outlay	91,412,808	1,486,894	118,800,186	6,106,160
Total	752,115,503	637,849,461	913,698,598	707,753,333

AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements because provision for credit losses of secured and unsecured past-due loans amounting to P1.287 billion was not recognized, contrary to BSP Circular No. 855, resulting in the overstatement of both the Loans and receivable account and the net income for the period by P1.287 billion.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above audit observation which caused the issuance of a qualified opinion, we recommended that Management recognize/book the allowance for credit losses for loans and receivable account in compliance with BSP Circular No. 855.

The other significant observations and recommendations are as follows:

1. Past due loans of P2.373 billion as of December 31, 2017, which increased by P216.603 million from the last year's balance, were not collected, thereby reducing the amount of resources for the lending and investment operations of the Bank that could have generated additional income.

We recommended that Management:

- a. Intensify collection efforts thru sending of demand letters and restructuring programs for past due accounts; and
- b. Initiate collection proceedings against borrowers with past due accounts that can no longer be remedied.

2. The Bank was not able to meet the minimum capitalization and minimum capital adequacy ratio prescribed by the Bangko Sentral ng Pilipinas (BSP), and its financial conditions cast doubt on the ability to service effectively the needs of its clients.

We recommended and Management agreed to follow up and make representation with Land Bank of the Philippines to infuse equity, as provided under EO 44, for the bank to meet the minimum capitalization and capital adequacy ratio required by the BSP.

3. Inadequate recognition of allowance for probable losses amounting to P8.257 million resulted in the overstatement of both the accounts receivable as of December 31, 2017 and income for the year by P8.257 million.

We recommended that Management:

- a. Provide allowance for probable losses on the Head Office receivable based on the classification of the accounts in order to reflect the correct amount of accounts receivable and income in the financial statements;
- b. Collect from Philippine Postal Corporation (PPC) the long outstanding accounts receivables for the repairs, insurance, renovation and improvements of PPSBI buildings;
- c. Initiate collection procedures, through mails, from former PPSBI Board of Directors and officers, the disallowance and additional HMO premium advanced by the Bank amounting to P3,770,587.83 and P16,850.00, respectively;
- d. Require the employees to submit the required documents within a specific period of time, with information that their failure to comply with the requirements

after due date will cause the deduction of the advanced maternity benefits from their respective salaries; and

- e. Collect from the loan borrowers the fees and other expenses advanced by the Bank.

SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Total disallowances amounted to P30.807 million as at December 31, 2017. Of the total disallowances, P1.26 million were issued during the year. All disallowances were appealed to the Cluster Director in accordance with the provisions of the 2009 Revised Rules of Procedure of the Commission on Audit.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 73 audit recommendations embodied in the prior years' Annual Audit Reports, 35 were fully implemented, 30 were partially implemented and 8 were not implemented, of which 20 were reiterated in Part II of this Report. Details are presented in Part III of this report.