



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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Philippine Postal Savings Bank, Inc.
Lwasang Bonifacio, Manila

We have audited the accompanying financial statements of **Philippine Postal Savings Bank, Inc.**, a subsidiary of the Philippine Postal Corporation, which comprise the statement of financial position as at December 31, 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

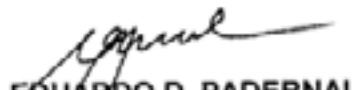
Basis for Qualified Opinion

Loans and receivables account with a net balance of P4.081 billion as at December 31, 2013, was carried in the books at its diminishing cost instead of its amortized cost using the effective interest rate (EIR) as required under paragraph 9 of Philippine Accounting Standards (PAS) 39 resulting in overstatement of Loans and receivables and understatement of income.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of **Philippine Postal Savings Bank, Inc.** as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

COMMISSION ON AUDIT



EDUARDO D. PADERNAL
Supervising Auditor

June 23, 2014

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of PHILIPPINE POSTAL SAVINGS BANK, INC. is responsible for all information and representations contained in the financial statements for the year ended December 31, 2013. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines for Banks and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weakness in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

Signed under oath by the following:



CESAR N. SARINO

President and Chief Executive Officer



PATRIA P. MADRIO

Head, Admin. & Comptrollership Group

Handwritten signature and date
4/10/14

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

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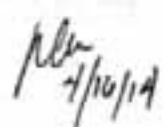
Signed under oath by the following:



CESAR N. SARINO
President and Chief Executive Officer



PATRIA P. MADRIO
Head, Admin. & Comptrollership Group


4/10/14

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENT OF FINANCIAL POSITION
December 31, 2013
(In Philippine Peso)

		2013	2012 As restated
	Note		
RESOURCES			
Cash and cash equivalents	6	96,534,579	135,103,048
Due from Bangko Sentral ng Pilipinas	7	923,989,583	584,190,478
Due from other banks	8	121,959,016	152,915,216
Loans and receivables - net	9	4,081,422,352	2,590,327,484
Available for sale financial assets	10	134,696,666	434,391,494
Held to maturity financial assets	11	1,219,367,341	1,296,579,749
Unquoted debt securities classified as loans	12	297,170,944	477,651,935
Bank premises, furniture, fixtures and equipment - net	13	82,652,944	88,284,267
Investment property	14	82,292,678	95,595,335
Sales contract receivable	15	47,465,259	56,128,839
Other resources	16	130,893,355	173,948,202
TOTAL RESOURCES		7,218,444,717	6,085,116,047
LIABILITIES AND EQUITY			
Deposit liabilities	17		
Savings		5,606,601,528	4,891,357,383
Time		179,781,039	240,245,759
Demand		399,378,014	270,533,830
Manager's/Cashier's checks		9,263,830	11,823,067
Unearned income and other deferred credits		13,620,413	2,924,644
Accrued taxes and other expenses	18	73,479,810	34,333,123
Other liabilities	19	80,572,615	51,614,693
TOTAL LIABILITIES		6,562,697,249	5,502,832,499
EQUITY		655,747,468	582,283,548
TOTAL LIABILITIES AND EQUITY		7,218,444,717	6,085,116,047

The Notes on pages 7 to 25 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012 As restated
INTEREST INCOME	2.15		
Interest/discount earned on loans & discounts		394,027,863	303,164,042
Interest on investments		97,558,945	108,438,980
Interest income - loans and receivable arising from RA/CA/PR/SLB		793,100	13,551,839
Interest on due from Bangko Sentral ng Pilipinas		16,052,491	31,015,645
Interest on deposits with banks		1,202,905	623,039
Interest income on sales contract receivable		1,946,750	388,281
Others		-	200
		511,582,054	457,182,026
INTEREST EXPENSE	2.15		
Interest on deposit liabilities		106,965,258	123,677,835
Provision for losses on accrued interest income		1,734,527	54,636
		108,699,785	123,732,471
		402,882,269	333,449,555
NET INTEREST INCOME			
OTHER INCOME	2.15		
Fees and commission income		45,172,831	46,536,358
Gain/loss from sale/derecognition of non-financial assets		6,478,342	7,677,349
Gain on financial assets and liabilities held for trading		80,571	816
Gain from sale/redemption/derecognition of non-trading financial assets & liabilities		42,207,714	-
Foreign exchange (loss)/gain		324,902	2,629
Recovery on charged-off assets		6,000	60,498
Miscellaneous income	24	22,148,323	15,687,584
		116,418,683	69,965,234
OPERATING EXPENSES	25		
		438,343,125	373,094,790
NET INCOME BEFORE TAX		80,957,827	30,319,999
PROVISION FOR INCOME TAX	20		
		16,532,125	-
NET INCOME AFTER TAX		64,425,702	30,319,999
OTHER COMPREHENSIVE INCOME(LOSS)			
		(30,961,782)	7,463,549
TOTAL COMPREHENSIVE INCOME		33,463,920	37,783,548

The Notes on pages 7 to 25 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2013
(In Philippine Peso)

Note	Capital Stock 22	Other Comprehensive Income	Retained Earnings Unappropriated 21	Total Equity
Balance January 1, 2012	549,234,883	34,108,574	69,379,857	642,723,314
Issuance of Capital Stock	40,000,000			40,000,000
Unrealized Gains on Available for Sale Securities		7,463,549	*	7,463,549
Prior period adjustments			(138,223,314)	(138,223,314)
	589,234,883	41,572,123	(78,843,457)	551,963,549
Net income, 2012 before restatement			30,366,564	30,366,564
Correction of errors			(46,565)	(46,565)
Net income, 2012 as restated			30,319,999	30,319,999
Balance, December 31, 2012 as restated	589,234,883	41,572,123	(48,523,456)	582,283,548
Issuance of Capital Stock	40,000,000			40,000,000
Unrealized gain on available for sale securities		(30,961,782)		(30,961,782)
Net income, 2013			64,425,702	64,425,702
Balance, December 31, 2013	629,234,883	10,610,341	15,902,244	655,747,468

The Notes on pages 7 to 25 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
(In Philippine Peso)

	Note	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to/deposit from customers		983,623,609	162,940,900
Interest income, fees and commission received		584,841,480	507,556,581
Payment of/proceeds from sale of financial assets		268,733,045	(56,635,293)
Prepaid taxes, licenses and other expenses		67,013,043	(6,013,208)
Profit from sale/redemption of investments		42,207,714	-
Transfer of funds from regional branches		37,910,977	(61,791,414)
Issued checks to suppliers not yet presented for payment		9,263,830	14,270,865
Income from assets held for trading		80,571	816
Recoveries on loans previously written off		6,000	60,498
Cleared/returned checks and other cash items		(780,781)	36,196,511
Fund advances/collection to customers		(3,235,660)	(5,239,601)
Payments/proceeds of unidentified cleared checks		(6,882,714)	25,974,949
Payment of litigation/asset acquired expenses		(8,243,130)	(7,347,401)
Payment of taxes		(32,900,544)	(21,397,875)
Cash payments to suppliers		(99,043,922)	(196,458,099)
Interest and finance charges		(108,027,280)	(120,960,556)
Payment of prior period expenses		(138,269,878)	-
Cash payments to employees		(176,194,694)	(143,746,170)
Proceeds/withdrawal to BSP for regulatory or monetary control purposes		(339,799,105)	225,763,985
Release/collection of loans and receivables		(1,417,918,251)	(649,070,469)
Proceeds from/placements of Investments- Repurchase Agreements		-	910,000,000
Payments of expenses of branches		-	(1,962,080)
Net cash provided/(used) in operating activities		(338,615,630)	613,122,939
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase/sale of unquoted debt securities classified as loans		180,480,991	(464,749)
Purchase/sale of non dealing securities		77,212,409	(601,347,134)
Proceeds/payment from sale thru auction of real and other properties acquired (ROPA)		21,968,237	19,042,049
Profit/(loss) from asset sold/acquired		6,478,342	7,677,349
Rental income		15,243	22,315
Acquisition of property and equipment		(26,430,903)	(43,929,204)
Acquisition/payment of intangibles		-	(545,722)
Net cash provided/(used) by investing activities		259,722,319	(619,545,096)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common shares		40,000,000	40,000,000
Net cash provided/(used) by financing activities		40,000,000	40,000,000
Effects of exchange rate changes on cash and cash equivalents		324,902	2,629
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS		(38,568,469)	33,580,472
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		135,103,048	101,522,576
CASH AND CASH EQUIVALENTS AT END OF YEAR	6	96,534,579	135,103,048

The Notes on pages 7 to 25 form part of these financial statements.

PHILIPPINE POSTAL SAVINGS BANK, INC.
(A Subsidiary of the Philippine Postal Corporation)
NOTES TO FINANCIAL STATEMENTS
(All amounts in Philippine Peso unless otherwise stated)

1. GENERAL INFORMATION

The Philippine Postal Savings Bank, Inc. (PPSBI) is a subsidiary of the Philippine Postal Corporation (PPC) re-established and re-opened by virtue of PPC Board Resolution No. 94-34 dated February 24, 1994 in fulfillment of the intents and purposes of Republic Act 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) Monetary Board Resolution No. 267 dated March 18, 1994. The Bank was incorporated on June 22, 1994 and started its operation 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 located at Liwasang Bonifacio, Intramuros, Manila.

In these financial statements, the Philippine Postal Savings Bank, Inc. is also referred to as the "PPSBI" or the "Bank."

As at December 31, 2013, the Bank had 403 employees and has 25 branches, namely:

Northern Luzon Area:

1. Tuguegarao, Cagayan Branch
2. Baguio Branch
3. Asingan, Pangasinan Branch
4. Dagupan, Pangasinan Branch
5. San Fernando, La Union Branch
6. Tarlac City 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
2. Tigaon, Camarines Sur Branch
3. Legaspi, Albay Branch
4. Sorsogon Branch

Visayas Area:

1. Tacloban, Leyte Branch
2. Tagbilaran, Bohol Branch

3. Iloilo City Branch
4. Himamaylan, Negros Occidental Branch
5. Cebu City Branch
6. Bacolod Branch

Mindanao Area:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Financial Statements Preparation

The Bank's financial statements have been prepared in accordance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards/Philippine Accounting Standards (PFRS/PAS). These financial statements are prepared on the historical cost basis modified by the fair value measurement of financial assets on Available for Sale Securities.

The financial statements of the Bank reflect the combined financial transactions of the Head Office and its 24 branches nationwide as well as the accounts maintained in the Regular Banking Unit and Foreign Currency Deposit Unit.

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

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

2.2 Foreign currency translation

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

2.3 Cash and other cash items

For purposes of presentation in the statement of cash flows, cash and other cash items consists of cash and other cash items on hand.

2.4 Due from other banks

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

2.5 Financial Assets/Liabilities

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

The Bank classifies its financial assets under the following categories:

a. Financial Assets - Available for Sale (AFS)

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

b. Financial Assets – Held to Maturity (HTM)

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

2.6 Unquoted Debt Securities Classified as Loans

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

2.7 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 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 Government, Agri-agra, Development Incentive, Small and Medium Enterprise, Microfinance, Contract to sell and others) are carried in the books at its amortized cost or the amount at which the financial asset or financial liability 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.

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

Inter-bank loans represent overnight lending with the BSP with interest rates at an average of 3.85 per cent (highest 4.25 percent lowest 3.5 per cent). These are recorded at cost which represents fair value.

2.8 Sales Contract Receivable (SCR)

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 receivable due from borrowers. Discounts are accreted over the life of the SCR by crediting interest income. Any difference between the present value of the SCR and the derecognized assets shall be recognized in profit or loss at the date of sale in accordance with the provisions of PAS 18.

2.9 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 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.

2.10 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 over the estimated useful lives of the related assets as shown on the next page:

Building	10-20 years
Furniture and fixtures	5-10 years
Equipment	2-5 years
Leasehold improvements	5 years (maximum)

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

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

The cost of the leasehold improvements is amortized over the term of the lease or the estimated useful life of the improvements not exceeding five 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.

2.11 Investment Property

These are real and other properties, other than those used for banking purposes or held for investments, acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons.

Investment Property are booked initially at the carrying amount of the loan plus booked accrued interest less allowance for credit losses plus transaction costs incurred upon acquisition. If the carrying amount of the property exceeds P1 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. Subsequent to initial recognition, properties are measured using the cost model under PAS 40 "Investment Property".

Investment properties are sub-classified into land, building and other assets. Buildings and other assets are depreciated over 10 and 3 years, respectively, per BSP Circular 494.

2.12 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 three branches (in the cities

of Cagayan de Oro, Baguio and Dagupan-) from PPC, its mother corporation, for periods ranging from five to ten years renewable upon mutual agreement of both parties. The costs of renovations effected by the Bank on PPC premises are charged to 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.

2.13 Intangible Assets

Intangible assets represent cost 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. Cost associated with the developing or maintaining computer software programs are recognized as an expense as incurred. Costs 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.

2.14 Deferred Tax Asset

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

2.15 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 JUDGMENTS 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 portfolios 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 judgments 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 determines that AFS investments are impaired when there has been a significant or prolonged decline in fair value (market value) below its cost. This

determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in prices. Impairment may also be appropriate when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

3.3 Held to Maturity Financial Assets

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

3.4 Impairment of Investment property/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 AND LIABILITIES

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

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

4.2 Short term investments – carrying amount approximates fair values.

4.3 Others – quoted market prices are not readily available for these assets. They are reported at cost.

4.4 Cash and cash equivalents – carrying amounts approximates fair values.

5. MANAGEMENT OF RISKS RELATED TO FINANCIAL INSTRUMENTS

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

Decisions in relation to risk management are made by the Risk Management Committee (RMC) which ensures effective monitoring and control over risks being taken. The committee, together with the risk officer, is responsible for the development,

implementation, maintenance, improvement and communication of the risk management policy while each business and supporting unit has the primary task of managing the risks applicable to its area of responsibility. The committee has devised a mechanism to ensure an ongoing review of systems, policies and procedures to adapt to changes.

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

Credit Risk

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

The Bank follows the Single Borrower's Limit prescribed by the 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.

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.

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 is responsible for the implementation of sound policies and procedures keeping in mind the strategic direction and risk appetite of the Bank.

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.

6. CASH AND CASH EQUIVALENTS

For purposes of presentation in the statement of cash flows, cash and cash equivalents includes the following:

	2013	2012
Cash on hand	95,494,994	134,373,615
Checks and other cash items	900,585	590,433
Petty Cash Fund	139,000	139,000
	96,534,579	135,103,048

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 Bank's compliance with BSP Circular 10.

	2013	2012
Reserved deposits	539,000,000	257,000,000
Demand deposits	384,989,583	327,190,478
	923,989,583	584,190,478

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:

	2013	2012
UCPB Peso Account	56,754,106	16,710,426
UCPB US \$ Account	34,055,008	31,508,836
PNB Peso Account	7,373,651	1,728,266
Philippine Business Bank	5,960,903	-
China Bank	5,351,942	1,476,262
LBP Peso Account	4,911,879	4,874,095
RCBC	3,334,088	3,127,641
PNB US \$ Account	2,690,630	84,461,807
Philippine Savings Bank	811,659	452,521
Metro Bank and Trust Co.	503,863	265,137
LBP US \$ Account	85,824	78,427
Santander	66,446	-
EPCI/BDO	59,017	64,983

Allied Banking Corp.	-	5,328,043
Bank of Commerce	-	2,838,772
	121,959,016	152,915,216

9. LOANS AND RECEIVABLES

This account consists of:

	2013	2012 As restated
Loans to private corporation	1,630,398,363	706,310,871
Consumption loans	982,704,561	915,721,102
Small and medium enterprises	447,810,147	319,578,177
Loans to government	346,839,143	347,042,702
Contract to Sell	307,191,462	68,785,366
Agrarian reform and other agricultural	198,705,497	174,044,372
Development incentive loans - PD 717	190,726,096	189,785,838
Loans to individual - other purposes	178,002,961	64,341,588
Loans to individual - housing purposes	134,507,168	136,702,073
Microfinance loans	2,439,484	623,817
	4,419,324,882	2,922,935,906
Allowance for probable losses	337,902,530	332,608,422
	4,081,422,352	2,590,327,484

As to status:	2013	2012
Current loans	3,912,876,904	2,480,688,976
Non-performing loans	424,320,754	391,675,192
Restructured loans - performing	42,536,259	12,979,156
Restructured loans - non performing	39,590,965	37,592,582
	4,419,324,882	2,922,935,906

Consumption loans include financial assistance given to eligible employees of the PPC and the Bank, 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 P100,000, respectively.

10. AVAILABLE FOR SALE FINANCIAL ASSETS

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

	2013	2012
Security Bank Corporation	108,354,169	110,133,023
Hongkong and Shanghai Bank	26,027,428	26,912,273
First Metro Investment Corporation	315,069	106,596,969
Philippine National Bank	-	112,926,830
United Coconut Planters Bank	-	57,035,214
Multinational Investment Bancorporation	-	20,787,185
	134,696,666	434,391,494

11. HELD TO MATURITY FINANCIAL ASSETS

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

	2013	2012
Rizal Commercial Banking Corporation	407,727,072	409,248,451
Philippine National Bank	307,401,790	307,979,560
Security Bank Corporation	189,688,018	189,175,546
First Metro Investment Corp.	150,000,000	150,000,000
Union Bank of the Philippines	114,550,461	115,189,715
Philippine Veterans Bank	50,000,000	50,000,000
Multinational Investment Bancorporation	-	74,986,477
	1,219,367,341	1,296,579,749

12. UNQUOTED DEBT SECURITIES CLASSIFIED AS LOANS

These are securities invested for compliance purposes:

	2013	2012
Philippine Commercial Capital, Inc.	150,186,169	150,231,471
Multinational Investment Bancorporation	100,000,000	100,000,000
SB Corporation Note (MSME)	30,132,707	-
Rizal Commercial Banking Corporation	16,852,068	16,979,372
GE Money Bank, Inc.	-	154,646,621
Quedancor (Agri-Agra)	-	30,000,000

Small Business Guarantee and Fin. Corp.
LBP Trust Banking Group

20,000,000
5,794,471

297,170,944 477,651,935

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

13. BANK PREMISES, FURNITURE, FIXTURES & EQUIPMENT

This account consists of:

	Building	Furniture, Fixture & Equipment	Motor Vehicles	Computer & Peripherals	Leasehold Rights & Improvements	Totals
Cost						
January 1, 2013	37,567,000	64,458,777	14,193,756	142,049,342	17,324,841	275,593,716
Additions	4,023,705	4,200,779	36,899	5,065,596	-	13,326,979
Disposals	-	(351,148)	(643,259)	(204,816)	(591,205)	(1,790,428)
Reclassifications	-	(343,287)	-	(473,396)	(49,950)	(866,633)
December 31, 2013	41,590,705	67,965,121	13,587,396	146,436,726	16,683,686	286,263,634
Accumulated Depreciation						
January 1, 2013	352,191	55,468,514	8,993,264	116,348,828	7,146,652	187,309,449
Provisions	2,467,285	10,025,876	1,535,899	3,409,873	1,373,228	18,812,162
Disposals	-	(467,301)	(643,259)	(726,846)	-	(1,837,406)
Reclassifications	-	(266,227)	(5,158)	(362,179)	(49,950)	(673,515)
December 31, 2013	2,819,476	64,770,862	9,880,746	117,669,676	8,469,930	203,610,690
Carrying Amount						
December 31, 2013	38,771,229	3,194,259	3,706,650	28,767,050	8,213,756	82,652,944
Carrying Amount						
December 31, 2012	37,214,809	8,990,263	5,200,492	26,700,514	10,178,189	88,284,267

As there are no considerable indications of impairment in the Bank's furniture, fixtures and equipment account, no allowance for impairment has been provided in the books.

14. 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 dictated by the BSP regulations.

Generalship Inc. Management and Marketing	-	10,200,000
Consultancy	-	148,486
Eduardo Vasquez	-	270,000
Virginia C. Alcodia (Rosaly Sy)	-	
	47,465,259	56,128,839

16. OTHER RESOURCES

This account is composed of the following:

	2013	2012 As restated
Accrued interest receivable	66,677,397	61,935,143
Other intangible assets	9,832,392	32,059,901
Prepaid expenses	5,861,587	72,874,631
Miscellaneous assets	48,521,979	7,078,527
	130,893,355	173,948,202

The Prepaid expenses pertaining to rental paid to PPC amounting P67,489 million, which is under a holdout arrangement, was already reversed on June 05, 2013. The withdrawal of the deposit was approved by the PPSB Board of Directors.

Decrease in Other intangible assets account was due to the increase in the monthly amortization from P600 thousand to P1.4 million per month because management planned to replace the Misys CASA System being utilized by the Bank for a new deposit system. Also, an allowance for impairment was provided in the amount of P 10 million.

The Miscellaneous assets include Accounts receivable of P4 million which was misappropriated by the former Cashier of Sorsogon Branch. The case was already filed in court. Also included was the aggregate shortages amounting to P7.3 million arising from reconciling items of the ATM withdrawals and settlement transactions of Tacloban Branch subject of investigation for proper disposition.

17. DEPOSIT LIABILITIES

As at December 31, 2013, the Bank has P6.386 billion deposits, of which 64.14 per cent came from the government sector. Of the total deposit liabilities, P34.23 million represents foreign currency deposits with interest rates range from 0.25 per cent to 1.125 per cent. Peso deposits interest rates range from 0.25 per cent to 3.875 per cent.

18. ACCRUED EXPENSES

This account is composed of the following:

	2013	2012 As restated
Accrued expenses	54,187,065	22,445,307
Taxes and licenses	10,956,237	1,489,287
Accrued interest expense on financial liabilities	8,336,508	10,398,529
	73,479,810	34,333,123

These accrued expenses represent accrued compensation and fringe benefits, rent, management and other professional fees, utilities, repairs and maintenance, security, messengerial and janitorial services, fuel and lubricants and others.

19. OTHER LIABILITIES

This account comprises:

	2013	2012
Accounts payable - Others	67,512,237	43,785,321
Inter-office float items	8,584,892	3,504,054
Withholding tax payable	3,259,642	3,347,001
SSS, PHIC, ECC and Pag-IBIG Fund payable	852,258	595,111
Deposit for keys on safety deposit boxes	97,060	207,260
Overages	6,294	5,841
Sundry credits	(34,330)	(78,181)
Miscellaneous liabilities	294,562	248,286
	80,572,615	51,614,693

The Accounts Payable – Others comprises of:

19.1 Special Fund in the amount of P500 million released by the Department of Budget and Management, through the Bureau of Treasury to the Bank for disbursement to the National Government's microfinance program for the transport sector.

Net of releases and subsequent collections, the fund has an outstanding balance of P241.883 million, of which P249.234 million was treated as capital in the books of the Bank per Board Resolution No. 2011-274 and also consented by the National Government per memorandum from the Executive Secretary dated December 16, 2011.

19.2 Overpayment on loans pending refund, payment of loans pending liquidation/posting, contributions payable to Bureau of Internal Revenue, Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), Bancnet and others.

20. PROVISION FOR FINAL TAX

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

In compliance with generally accepted accounting principles in the Philippines on accounting for income taxes, the system of recording all amounts/income from government securities at gross was adopted by the Board effective January 1997. Prior to this, income from government securities was recorded at net of the 20 per cent final tax.

For financial statements presentation, the interest income derived from AFS securities account was presented net of 20 per cent final tax.

21. RETAINED EARNINGS

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

	2013	2012 As restated
Retained earnings, beginning	(48,523,458)	59,379,857
Prior period adjustment	-	(138,223,314)
Retained earnings, beginning	(48,523,458)	(78,843,457)
Net income before restatement	64,425,702	30,366,564
Adjustment to net income	-	(46,565)
Net income	64,425,702	30,319,999
Retained earnings, end	15,902,244	(48,523,458)

Additional provision for probable losses totaling P138,654,628 was charged to Retained Earnings account in compliance with BSP requirements per Report of Examination as of July 2012, viz: P30,000,000 for Investment, P103,892,628 for Loans and receivables and P2,762,000 for Other assets. Also, the receivables arising from disallowances and write-off of the failed Loans and accounting system were credited/charged to Retained earnings amounting to P 301,666 and P 1,870,352, respectively. The total amount of prior period adjustments is P 138,223,314.

22. CAPITAL STOCK

The Bank is authorized to issue 10,000,000 shares at P100 par value. Total subscribed is 7,492,348 shares amounting to P749,234,883.

Five million (5,000,000) shares were subscribed by PPC of which 3,400,000 shares or P340,000,000 was fully paid. The 400,000 shares amounting to P40,000,000 was paid

on December 13, 2012 by PPC as partial payment on the remaining balance of P160,000,000 equity share with the Bank.

Per Board Resolution No. 2011-274, the Board of Directors of the Bank approved the issuance to the Republic of the Philippines of common shares of stock with par value equal to the cash balance of the Project D.R.I.V.E. Fund amounting to P249,234,883 or equal to 2,492,348 shares. The National Government has consented to the treatment of the Fund as capital in the books of the Bank per memorandum from the Executive Secretary dated December 16, 2011. This Fund represents the outstanding balance from P500,000,000 previously released by the National Government to the Bank for disbursement to the National Government's microfinance program for the transport sector.

23. INCOME AND OTHER TAXES

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

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

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

In compliance with the requirements set forth by Revenue Regulation 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

	2013	2012
Documentary stamp taxes	23,325,844	19,419,111
Percentage taxes	22,713,576	16,274,095
Final income taxes	17,187,005	22,111,920
Income taxes on compensation	16,278,837	14,788,890
Annual/quarterly income taxes	6,083,142	661,636
VAT & other percentage taxes	3,829,036	4,664,670
Creditable income taxes	3,279,684	4,043,795
Annual registration	12,500	12,500
	92,709,624	81,976,617

24. MISCELLANEOUS INCOME

This account represents additional interest and penalty charges on loans and other fees collected by the Bank. Penalties on past due loans amounted to P12.790 million and others P9.343 million.

25. OPERATING EXPENSES

Breakdown of this account is as follows:

	2013	2012 As restated
Compensation and fringe benefits	176,364,482	143,367,105
Provision for probable losses	36,025,621	20,118,370
Depreciation and amortization	34,474,926	30,514,569
Rent	29,482,652	45,509,475
Taxes and licenses	25,835,369	19,882,271
Security, clerical, messengerial and janitorial	18,204,794	15,652,449
Insurance	16,849,681	14,304,033
Information technology	14,771,177	13,661,539
Representation and entertainment	12,230,650	10,829,011
Power, light and water	11,206,520	10,610,823
Impairment Loss	10,585,957	-
Documentary stamps used	8,257,806	8,155,038
Litigation expense	8,243,130	7,347,401
Stationeries and supplies used	6,880,124	5,980,445
Postage, telephone, cable and telegram	5,834,279	6,746,254
Repairs and maintenance	4,941,531	4,439,155
Traveling expenses	4,404,664	3,348,265
Management and other professional fees	4,401,881	4,254,308
Fuel and lubricants	2,693,901	2,720,566
Supervision fees	2,016,292	1,530,490
Fees and commission	1,843,578	1,920,855
Membership fees and dues	867,855	917,602
Advertising and publicity	827,177	559,152
Bad Debt Expense	414,601	-
Periodicals and magazines	94,036	101,535
Fines, penalties and other charges	67,372	48,527
Donations and charitable contributions	52,602	87,858
Miscellaneous Expense	470,467	487,694
	438,343,125	373,094,790

26. RELATED PARTY TRANSACTIONS

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

The loan granted by the Bank to its mother corporation, PPC on December 11, 2006 and July 31, 2008 has an outstanding balance of P102.186 million as at December 31, 2013. The loan is fully secured by deposit hold-out of peso and dollar deposits with the Bank.

Payments of monthly amortizations were effected through offsetting of the building rentals.

The total DOSRI loan as at December 31, 2012 is P114.186 million.

27. 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.

28. 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.

29. AUTHORITY TO ISSUE FINANCIAL STATEMENTS

As per Stockholders' Resolution No. 2014-01 entitled "CONFIRMATION OF THE 2013 ANNUAL REPORT of Philippine Postal Savings Bank, Inc.", which contains its 2013 Financial Statements, was presented to and duly confirmed and noted by the Stockholders who were represented by the Board of Directors in the PPSBI Annual Stockholders' Meeting held on April 22, 2014.

30. RECLASSIFICATION OF ACCOUNTS

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