

THE PRESIDENT'S REPORT

Year 2002 has been one of the most fruitful and successful years for PostalBank with profitability reaching one of the highest in its eight (8) years of operations. We have seen many improvements in our bottom line figures which is one of the reasons we were given an all time high CAMELS rating by the Bangko Sentral ng Pilipinas (BSP) for the period September 30, 2000 to March 31, 2002 operations of the Bank.

Amid this year's economic and political shocks, both internal and external, that intervened in 2001, PostalBank remained undaunted and have been able to turn the tables against the lingering effects of such crisis. PostalBank, under the stewardship of a robust Board of Directors in fact managed to post significant improvements in the following key result areas:

- ◆ Total resources grew by 39% from P1.65 billion in year 2001 to P2.29 billion this year
- ◆ Total deposit ADB went up by 46% from P1.12 billion last year to P1.64 billion this year
- ◆ Stockholders equity is at P233.78 million compared to P205.22 million last year
- ◆ Total loan portfolio has reached P 888 million or 87% lending efficiency.
- ◆ Net income this year reached P34.96 million compared to P18.45 million last year

A Lean and Mean Organization

The re-organization implemented in November of 1999 enabled Management to develop and maintain a more responsive, cohesive and efficient organization. This year, an organizational realignment was made to further improve organizational efficiency and effectiveness and responsive to the strategic plan of the bank vis-à-vis the career development of employees from 2002-2005.

Under the guidance of the Board and the working Board Committees, we continuously implement a Job Enrichment Program complemented by the adoption of Total Quality Management (TQM) approach focusing on strategic and maintenance management encompassing cross-functional direction and control in business development& marketing, strategic support services, operations and financial & management accounting. This organizational set-up is working smoothly which lead to positive results in management efficiency:

- ◆ Further enhance the leadership and managerial competencies of Officers in governing the affairs of the Bank;
- ◆ Substantial improvements in management efficiency; and
- ◆ Expand and strengthen strategic alliances and networking of the Bank with government and private institutions and individuals to become more competitive in the playing field.

As a result of improved performance, a performance reward system was implemented recognizing the contribution of employees in the successful and profitable operation of the Bank. This will

motivate all employees to work harder, exert extra efforts to efficiently perform their duties and responsibilities.

Good Governance Practices

Our Board of Directors and the key officers have completed the BSP mandated Seminar on Corporate Governance and Risk Management. As a result, a Code of Good Governance for the Board of Directors was prepared and now being adopted by the members of the Board. A Risk Management Manual is being drafted for implementation next year. With the present Board's composition, we are now seeing a very cohesive Board with mutual trust, respect and close working relationship. With their guidance and active participation in the Working Committees, we are sure of good governance practices and definitely will form part of the culture of excellence within the institution.

A Financially Strong Banking Institution

To date, in comparative industry ranking, PostalBank ranks 16 (out of 69 thrift banks) in terms of assets, number 17 in terms of loans, and number 13 in terms of deposits.

In the latest assessment form the Bangko Sentral ng Pilipinas (BSP), using the CAMELS composite rating system for Banks (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitive to Risks, all in a scale of 1-5, 5 being the highest), PostalBank garnered an over-all rating of 4 compared to the rating of 2 given in Year 2000. This implies "financial strength; DOSRI loans with statutory and prudential levels; adequacy of provision for probable losses; satisfactory rates of return; high ratio of primary and secondary reserves; and consistent excess reserves on deposits".

Championing the Transportation and Communication, LGUs, SMEs and OFWs

In line with the urgent call of President Gloria Macapagal-Arroyo to accelerate the flow of investment and credit resources in the countryside for SME financing and to focus on the financing needs of the transportation and communication sectors, PostalBank also endeavored into projects championing the SMEs, OFWs and the transportation and communication sectors. These includes among others: the proposed electronic remittance payment system—a cash card remittance service that brings internet banking and remittance services to Filipinos nationwide; an agreement with OFW Family Club for the needed banking and remittance services of OFWs and financing assistance for OFW families for livelihood projects; a Loan Agreement with the Office of Transportation Cooperatives (OTC) of the DOTC for the Sagip sa Kabuhayan "Sakay" Livelihood Projects for transport cooperatives' members and their families; and a financing program for the two way radio requirements of taxi operators with LTFRB.

In support of this endeavor, DOTC Secretary R. Mendoza issued Department Order No. 2002-59 encouraging all income generating agencies and government corporations under DOTC to make PostalBank as their depository bank. Such strong support from the DOTC family will make a "Big

Difference” in enhancing the competitiveness of PostalBank to respond to urgent call of the President in championing the transportation and communication sectors.

For the LGUs, PostalBank has extended financing for the Equipment Development Pool Project for the Province of Cagayan; packaged development projects for the Municipality of Hagonoy (Aqua Techno Park Project), City of San Jose del Monte in Bulacan (Agropolis Development Project), Province of Pampanga (Candaba Swamp Development Project) and many LGU development projects.

Re-engineering for Sustainable Growth

PostalBank taking the initiatives paved the way for re-engineering efforts of the Philippine Postal Corporation (PhilPost) and PostalBank. Task Forces were created to study and carry out the integrated re-engineering of PhilPost and PostalBank, which include among others: the Information Technology Integration Task Force composed PhilPost and Postalbank Officials to assess, develop, implement, monitor and enhance the IT and business related efforts of the two organizations for a unified development plan, a Bond Flotation Study team to study the issuance of bonds by the PhilPost to improve cash flow, competitiveness, and profitability. This will likewise contribute to the capital build up. The PhilPost Board has approved Study Team recommendation to proceed with the bond offering.

Striving for Excellence

With our very satisfactory performance this year, morale is high and everybody is motivated to give “extra” dedication and more commitment as we strive for excellence in banking in years ahead.

All of these are attributed to the cohesive efforts of the Board of Directors, Management & Staff in the interest of the Institution and the valued clients we serve.

We will continue working as a team and in accordance with the code of conduct in banking, that is the highest standards of professionalism in banking operation.

THE PHILIPPINE ECONOMY:

A REVIEW OF 2002

2002 YEAR-END REPORT ON THE ECONOMY

The Philippine economy posted growth in **real GDP of 3.2%**, one of the highest in East and Southeast Asia.

In the *first three quarters of 2002*, **real GDP grew 4.1%** compared to 3.0% last year. With robust net factor income from abroad, **real GNP grew 4.2%** compared to 3.6% in the first three quarters.

On the aggregate supply-side, all three major sectors of the economy expanded. *Services*, lead all three sectors, which is posted a **growth of 5.1%** in the first nine months of 2002, compared to 4.2% in the same period last year. *Industry* came next, with a **growth rate of 3.8%** from 1.5% last year. *Agriculture* came in third with a **growth rate of 2.3%** in the first three quarters of 2002, a slight decline from the 2.8% growth recorded in 2001 due to adverse weather condition in the third quarter.

Other developments that took place are as follows:

- Services showed strength due to a great deal to the innovation-inducing liberalization and deregularization measures.
- Telecommunications continues to show strong growth following the opening up long distance service and mandatory interconnection.
- Transport benefited from the motor vehicle complementation scheme in Southeast Asia and in trade in spare parts and components in East Asia.
- Retail and wholesale captured the gains from its liberalization.
- Finance (banking and insurance) benefited from the country's integration with the world's financial markets.
- Private services (call centers, backroom operations and software design) grew due to the acceleration of the development of the ICT sector.
- Manufacturing grew 2.8%
- Construction recovered from its slump last year
- Electricity, gas and water slowed down due to the ongoing consolidation in the sector plus regulatory constraints.
- Agriculture, fishery and forestry slightly slowed this year to 2.3%
- Poultry production increased by 5.1%, fishery by 5.7%, and livestock by 3.1%.
- Personal consumption surged by 3.7% due to the downtrend in inflation and interest rates.
- Total investments slipped to -3.3% due to drawdown in inventories, although investments in fixed capital rebounded.
- Net exports is at 8.9% in the first three quarters of 2002, compared to -63.1% last year.

PHILIPPINE POSTAL SAVINGS BANK

2002 PERFORMANCE REPORT

Result of Operations

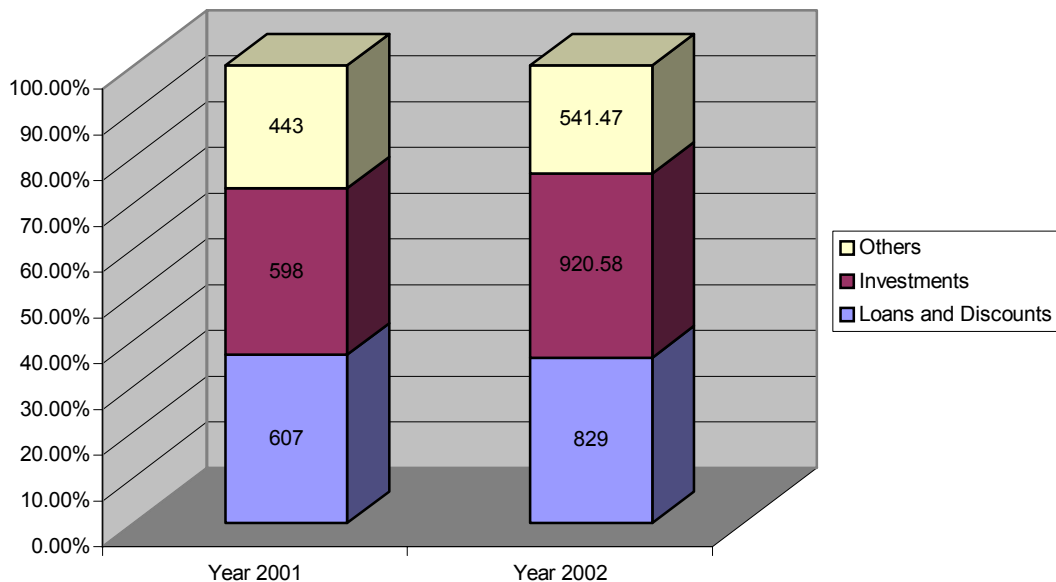
FINANCIAL CONDITION

Total Resources

PostalBank's resources for the year 2002 grew by 39% from P 1.65 billion in Year 2001 to P 2.29 billion in 2002. Loans and discounts (net of provisions for probable loan losses) account for 36% (P 828.74 million), while Investments in Bonds and other Debt Instruments comprise 31% (P 719.83 million) of Total Resources . The remaining 32% is composed of ROPOA, Trading Account Securities and other assets.

On the other hand, Total Deposit Liabilities went up by 46% from P 1.21 billion last year to P 1.77 billion this year. Stockholders' equity as of December 2002 is at P 233.78 million compared to P 205.22 million for the same period last year.

TOTAL ASSETS (in million pesos)

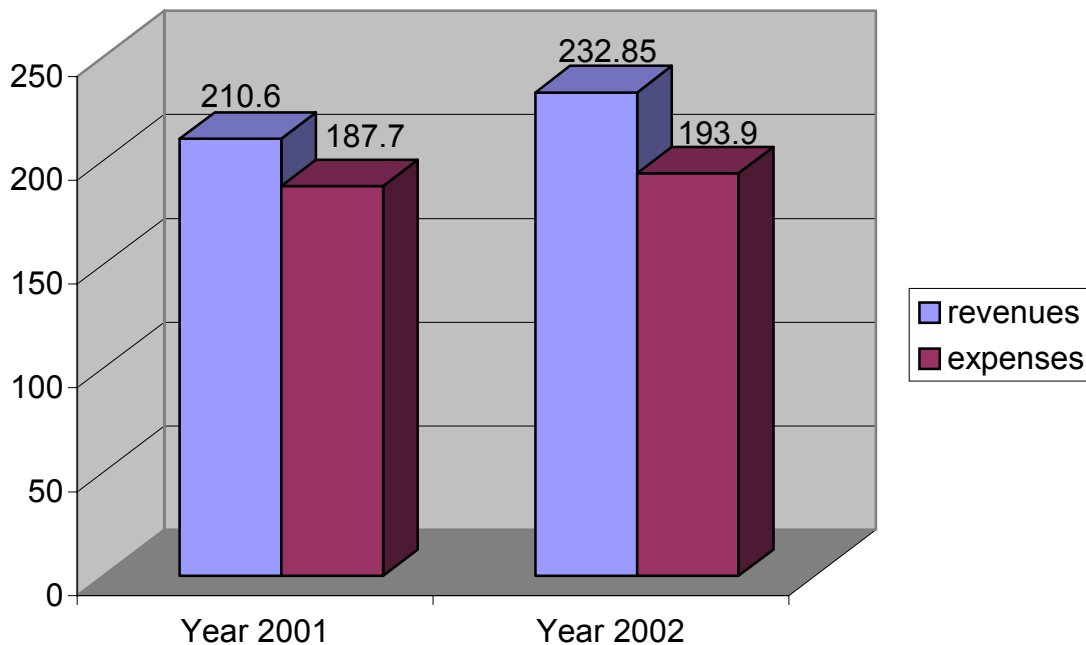


In line with its mission to mobilize savings and promote the values of thrift, industry and prudence, the Bank generated deposits totaling P 1.77 billion and gross loan portfolio amounting to P 888 million as of end-December 2002. Total deposit liabilities is 111% of total target of Average Daily Balance (ADB) P 1.6 billion for Year 2002. While total loan portfolio has reached 87% of the P 1,016.88 billion investible fund or higher by 2% of the loan efficiency target.

Profitability

Total Operating Income for the year reached P 154.01 million, 11% higher than the previous year's level of P 138.7 million. Net interest income totaled P 143 million from P 128.8 million in the Year 2001, with interest income from loans contributing P 145.2 million, as against last year's P 138.6 million. Fee based income posted a modest increase of 11% from P9.9 million to P11 million.

REVENUES vs. EXPENSES (in million pesos)

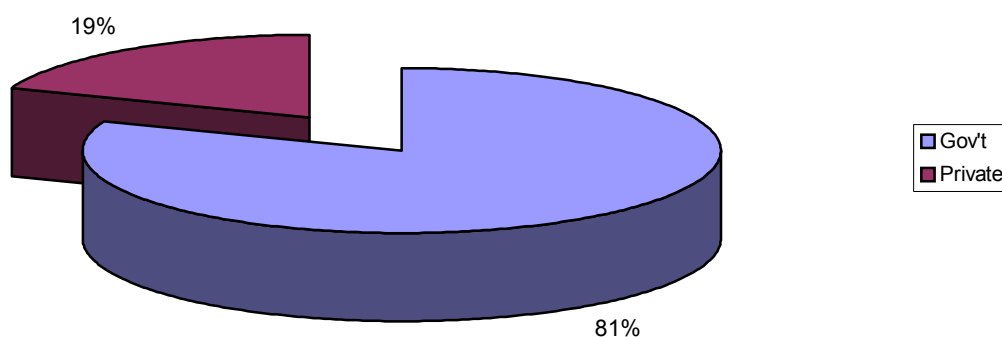


On the other hand, total expenses went up to P 193.9 million from P 187.7 million, or 3% higher than 2001. Interest expense takes up a substantial portion, accounting for 35% (or P 68.96 million) of total expenses. Next is Compensation and Fringe Benefits at P 50.06 million accounting for 25% of total expenses. Compensation shows an increase of 5% from last year, of which salaries and wages comprise almost P 33 million, still below year 2002 budget of P 34.4 million.

Lastly, Other Operating Expenses reached P 69 million or 35% of total expenses as against P 72.8 M target or lower than 5%.

The bank managed to attain an income after tax of P 34.96 million as of Year-end 2002.

DEPOSIT MIX (in million pesos)

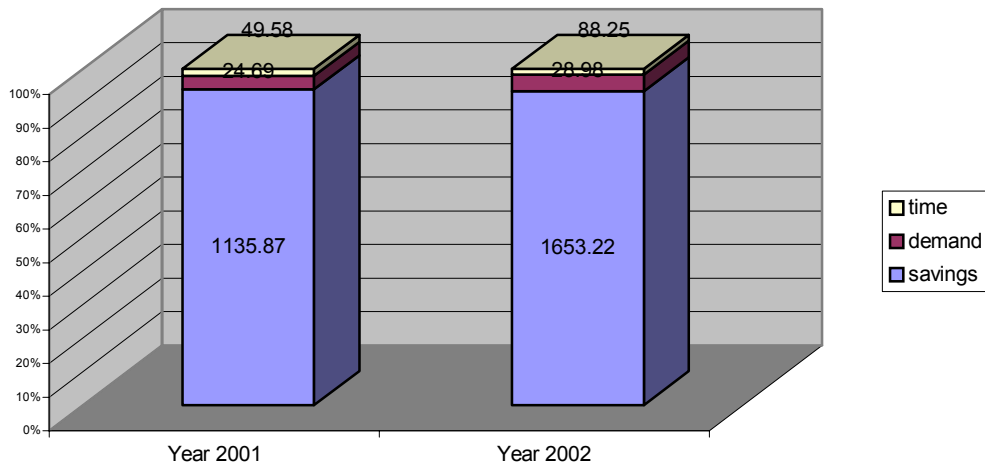


In terms of deposit mix, the bank generated 81% of its total deposits or P 1.33 billion from government entities, while the rest which stands at P 312 million or 19% of total deposit ADB was contributed by the private sector. This is short of the Year 2001 goal of a 70:30 mix in favor of government deposits.

Deposit by Type

By type of deposits, 93% are savings deposits slightly down from 94% last year. Time deposits comprise 2% of total deposit liabilities while demand deposits, 5% for the year 2002.

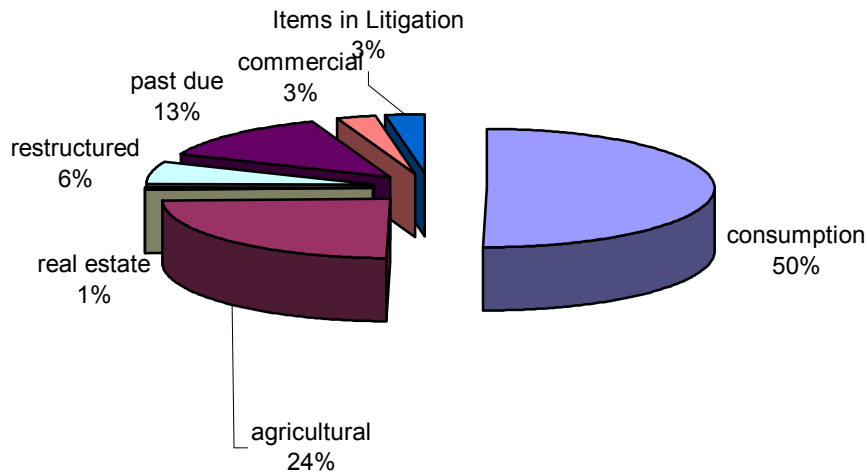
DEPOSITS BY TYPE



Lending Operations

Gross Loan Portfolio totaled P 888.4 million, of which 50% or P 444.82 million were consumption loans while 2.9% or P 23.82 million were commercial loans. The inability of many debtors to pay their outstanding obligations, as a result of the prevailing economic difficulties, weighed on our Non-Performing Loans by 15.8% or from P 125 million last year to P 140 million this year. Items in Litigation also climbed from P 11.66 million last year to P 24.16 million at the end of 2002.

LOANS & DISCOUNTS (%)



Loan-loss provisioning was very minimal due to the P 17 M excess loan-loss reserves.

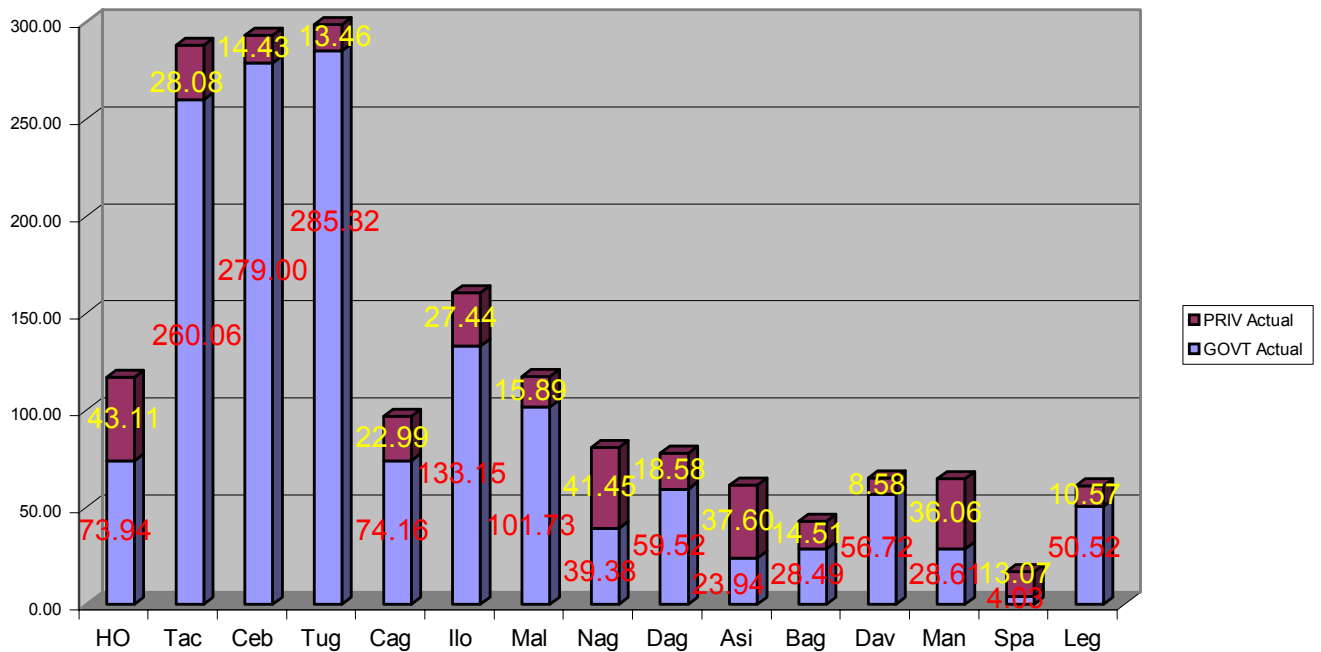
Investments

Total investments reached P 920.58 million from P 598.25 million for last year or a 54% increase. Major contributor was investments in bonds and other debt instruments with a 47% increase from last year's P 488.75 million to P 719.83 million as of end December 2002.

Branch Operations

In terms of regional branch deposit performance, the top savings generators among the fourteen branches were Tuguegarao, with P 298.77 million or 18.23% of total deposit ADB (2002 cumulative) , Cebu with 17.90% or P 293.43 million, Tacloban with P 288.14 million or 17.58%, Iloilo with P 160.59 million or 9.8% and Malolos with P 117.62 million or 7.2% of total cumulative deposit ADB.

DEPOSITS BY BRANCH (in million pesos)



CAMELS Rating

In the latest report of the BSP as of March 31, 2002, using CAMELS Rating System (Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Risks, all in a scale of 1 – 5, 5 being the highest), the Bank garnered an overall rating of 4 compared to the rating of 2 given in year 2000. This implies “financial strength; DOSRI Loans with statutory and prudential levels; adequacy of provision of probable losses; satisfactory rates of return; high ratio of primary and secondary reserves; and consistent excess reserves on deposits.”

CAMELS RATING OF POSTALBANK

	CY 2000	CY 2002
Capital Adequacy	1.61	3.69
Asset Quality	2.57	3.48
Management	1.00	4.00
Earnings	3.31	3.88
Liquidity	3.32	3.63
Sensitivity to Risks	2.17	3.67
Composite Rating	2.00	4.00

Other Administrative and Operational Matters

Treasury

- Interest rates on savings was reduced from 4.0% and 3.0% to 2.5% and 1.25% per annum for private and government accounts, respectively.
- FMD was able to acquire Money Market / IBCL lines from other banks and financial institutions and likewise granted same lines to some banks.
- As of December 31, 2002, Investment in GS totals P 720.0 M and posted a gross income for the year of P 54.9 M.
- FMD started selling GS to the Secondary Market and other clients last September and sold a total of P 160.7 M from which FMD earned profit amounting to P .803 M.
- Through the initiatives of the FMD, the Bank acquired accreditation from the Bureau of Treasury as collecting agent for national collections.
- FMD initiated the accreditation on Sickness, Maternity and Other Employees compensation Benefit Plan from SSS. The MOA was signed on December 17, 2002.
- Initiated applications for accreditation of the Bank on Industrial Guarantee and Loan Fund (IGLF) for its lending program from DBP and other facilities relative to the program from BSP.

Security

- Administer the installation of time delay lock for the branches' cash safes, in compliance with BSP minimum security standard. Budget of the Security Office was realigned for this purpose.
- Prepared Program of Instructions for the conduct of Security Awareness Seminar.

Branch Operations

- Branch relocation of Naga Branch
- Branch renovation of Baguio Branch
- Implementation on the use of Score Card
- Approval of transfer of San Pablo Branch to a new site
- Increase in deposit by 65% (branches)
- Increase in loan portfolio by 66% (branches)

- Reduction on NPLs by 83% (branches)

Special Projects

- “Candaba Swamp Development Project” for the Municipality of Candaba, Pampanga.
- “Hagonoy Aqua-Techno Park” for the Municipality of Hagonoy, Bulacan.
- “San Jose Del Monte Agropolis Development Project” for the City of San Jose Del Monte, Bulacan.
- “Roll On Roll Off Ferry Development Project for the Trans-Visayas Intermodal Ferry Network System”
- “Prime Properties of the Philippine Postal Corporation”
- Developed Toolkit--- “Financial Assistance to LGUs”

General Services

- PostalBank Beautification Project
- Rehabilitation of PostalBank Head Office Water Distribution System – Installation of overhead tanks.
- Cost Cutting Schemes
- Installation of drinking fountains
- Disposal of vehicles
- Activation of the stand-by power (Genset)
- Comprehensive Vehicle Maintenance Program

Corporate Planning and Business Development

- MOA for EPS International Remittance
- 2003 Pre-planning Sessions
- MOA signing with RBAP for Correspondent Banking
- PPSB DRP, Business Impact Analysis and Revised EPS Timeline
- Facilitated the issuance of DOTC Department Order No. 50-2002 encouraging all income generating agencies and government corporations to deposit with PostalBank.

IT Division

- Set-up a structured-cabling for LAN connections of the different working units in the Bank
- Website development
- Stand alone CASA System implementation to 14 branches and Head Office
- Enhance the Bank's ISP dovetailing the current IT initiatives and business partnerships
- Development of a Document Tracking System
- Implement cost-reduction schemes via IT projects

Human Capital Management

- Policy on Personnel Policy Violation Report
- Policy on the Granting of Business Development Expense
- Implementation of the Pay Step Increase to the officers and employees
- Conducted various trainings:
 - "Know Your Money & Counterfeit Detection" in coordination with BSP for NCR, Luzon, Visayas & Mindanao
 - "Questioned Documents Examination & Forgery Detection" in coordination with NBI for NCR, Luzon, Visayas & Mindanao
 - "Corporate Governance & Risk Management" in coordination with DFI for the Board of Directors
- Renewal of the health care services provided by Pryce Care Inc.
- Renewal of Fidelity Bond of Employees
- PPSB Unified Performance Evaluation System

Credit Appraisal and Investigation

- Inspected progress of construction of various accounts
- Prepared recommendation for insurance accreditation
- Coordinated with independent appraisers for the conduct of appraisal of ROPOA

Legal

- Obtained favorable decision in the following legal cases:
 1. C.A.–G.R. S.P. No. 67233, Tanjuan vs. PPSB
 2. NLRC-NCR Case No. 30-01-00572-02, Usigan vs. PPSB
 3. NLRC-NCR Case No. 00-09-09232-99, De Leoz vs. PPSB
 4. NLRC-NCR Case No. 30-04-01679-01, Maldo vs. PPSB
 5. NLRC-NCR Case No. 30-11-00422-99, Generoso vs. PPSB
 6. MISC. CAD. Case No. T-1305, PPSB vs. Chavez
- Foreclosure of the following cases:
 1. RBS heavy Equipment Enterprises, represented by Rolando Santos
 2. Jira Trading (HO)
 3. Dizon Farms (HO)
 4. TRI-J Enterprises, represented by Estilita (HO)
 5. Sps. Carlito & Agnes (HO)
 6. Sps. Manuel & Teresita Dacayan
 7. South Crest School
 8. Bauan Rural Bank, Inc.
 9. RCI Construction & Rental, represented by Rosalinda C. Ibañez
 10. Wise Marketing, Inc.
 11. Delta's Bee Ventures and Consultancy, represented by Diony A. Ventura

Financial Accounting

- Prepared/processed tickets, disbursement vouchers and check payments.
- Prepared the daily head office/consolidated trial balance, monthly financial statements
- Recorded the bank's books of accounts
- Prepared/submitted BSP, PDIC and other periodic reports (with pending compliance to the GL/SL BSP reporting)
- Prepared schedules/reconciliation of selected accounts for COA, BSP, PDIC examiners/auditors
- Remitted/reconciled monthly withholding taxes

- Prepared schedules/reports and remitted SSS, Philhealth collections
- Prepared monthly payroll of rank and file employees
- Year-end reconciliation/reports of BIR tax remittances
- Prepared/processed all other regulatory bodies requirements