

PHILIPPINE POSTAL SAVINGS BANK, INC.
2003 PERFORMANCE REPORT

Result of Operations

FINANCIAL CONDITION

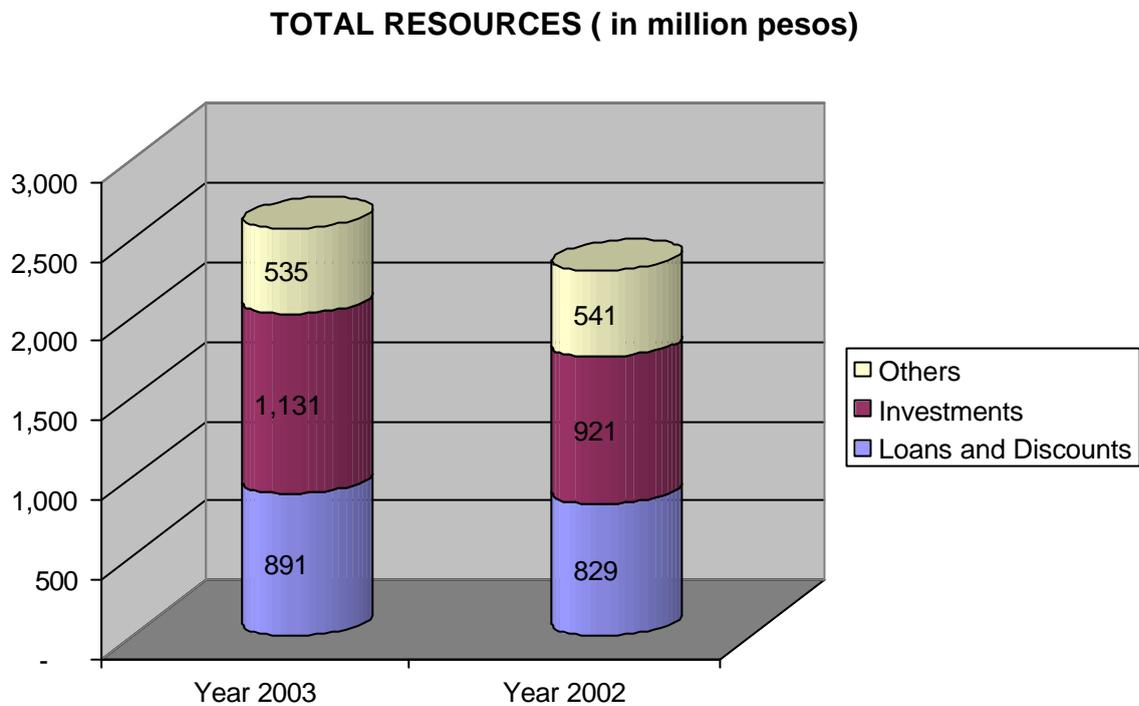
Total Resources

Auction of Non-performing Loans to relieve bank's and other financial institutions of the NPL burden; Mergers and acquisitions left and right to withstand the test of size and capital adequacy; the Bangko Sentral's recent announcement that it will soon be probing banks not on the basis of absolute amounts of capitalization but on their ability to cover for risks; and the Asian Development Bank's report that the Philippines has one of the lowest savings rates in Asia at 24% of GDP. These were just some of the concerns which beset the banking financial sector in the year just passed. In the face of such challenges, PostalBank still managed to perform remarkably vis-à-vis its industry peers and its strategic competitors.

PostalBank's resources for the year 2003 grew by 12% from P 2.29 billion in Year 2002 to P 2.56 billion in 2003. Loans and discounts account for 35% (P 891 million), while Investments in Bonds and Other Debt Instruments comprise 33% (P 846 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 15% from P 1.77 billion last year to P 2.04 billion this year. Stockholders' equity as of December 2003 is at P 269 million compared to P 234 million for the same period last year. Additional PhilPost equity amounting to P 155 million, in the form of lot and building has been temporarily lodged as Future

Subscription on Stock Receivables , but has already been recognized by the Bangko Sentral ng Pilipinas (BSP), pending the appropriate



documentation of the transfer with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP).

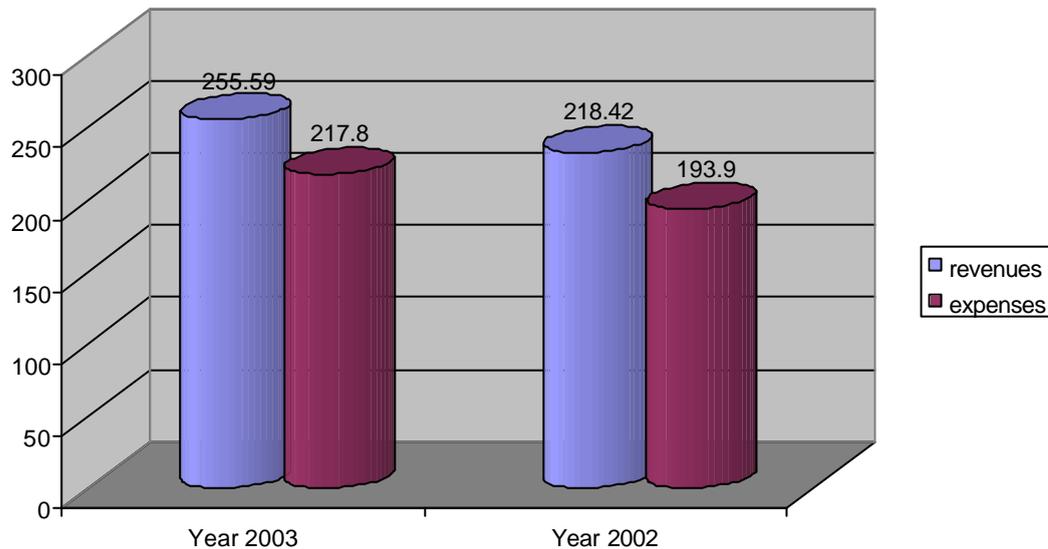
In line with its mission to mobilize savings and promote the values of thrift, industry and prudence, the Bank generated additional deposits totaling P 268 million and has extended loans (to-date) amounting to P795 million as of end-December 2003. Total deposit liabilities is 93% of total target of P 2.3 billion for Year 2003. While total loan portfolio has reached 81% of the P 1.2 billion loanable fund target for the year.

Profitability

Total Operating Income for the year reached P 167.42 million, 9% higher than the previous year's level of P 154.01 million. Interest income totaled P 230.7 million from P 211.75 million in the Year 2002, with interest income from loans contributing P 147.28 million, as against last year's P 145.17 million. Fee based income posted a modest increase of 8% or P 900,000.

REVENUES vs. EXPENSES

(in million pesos)



On the other hand, total expenses was managed at P 217.8 million from P 197.88 million, or only 10% higher than 2002. Interest expense takes up a substantial portion, accounting for 35% (or P 75.2 million) of total expenses. Next is Compensation and Fringe Benefits at P 62 million accounting for 28% of total expenses. Compensation shows an increase of 24% from last year, of which salaries and wages comprise almost P 40 million., P 7 million higher than year 2003 budget of P 33 million.

Lastly, Other Operating Expenses reached P 70 million or 32% of total expenses. This is only 1% higher than last year. The increase in Operating Expenses is due, among others, to the following :

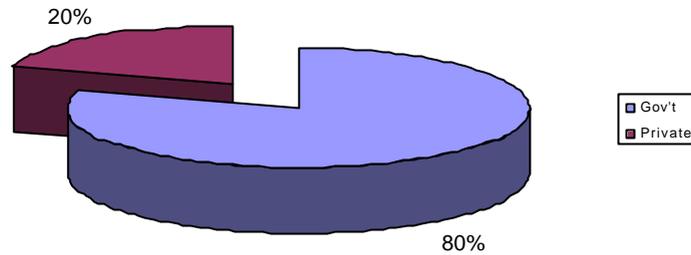
- Increase Depreciation/Amortization and Rent, combined by P 2.6 million.
- Increase in Representation and Entertainment by P 947,000.00
- Increase in traveling expense by P 521,000
- Increase in secretarial, messengerial, and janitorial expenses by P 612,000.
- All of which have been tempered by a significant decline in Taxes and Licenses by P 4.9 million

Although we booked additional loan-loss provisioning of P 1.2 million for the year, the Bank still managed to net an income of P 37.79 million as of Year-end 2003, recording profitability ratios of more than 15% (as measured by Return-On- Equity) and 1.43% (as measured by Return-On-Assets).

Deposits

In terms of deposit mix, the bank generated 80% of its total deposits or P 1.63 billion from government entities, while the rest which stands at P 405 million or 20% 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.

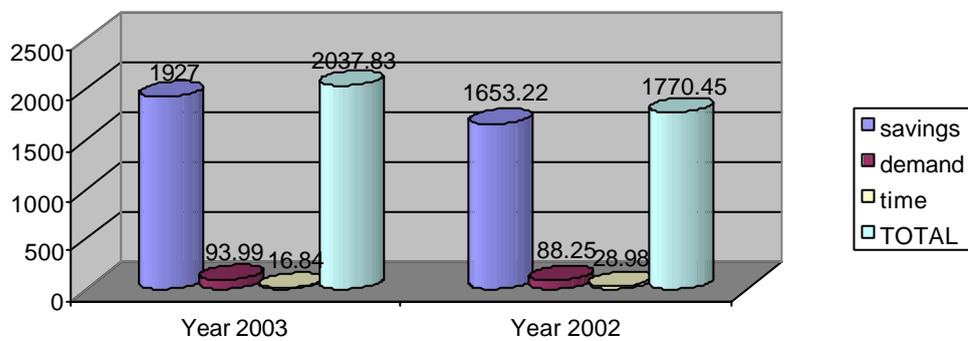
DEPOSIT MIX (in million pesos)



Deposit by Type

By type of deposits, 95% were savings deposits up from 93% from last year. Time deposits comprise a measly .8% of total deposit liabilities while demand deposits, 5% for the year 2003.

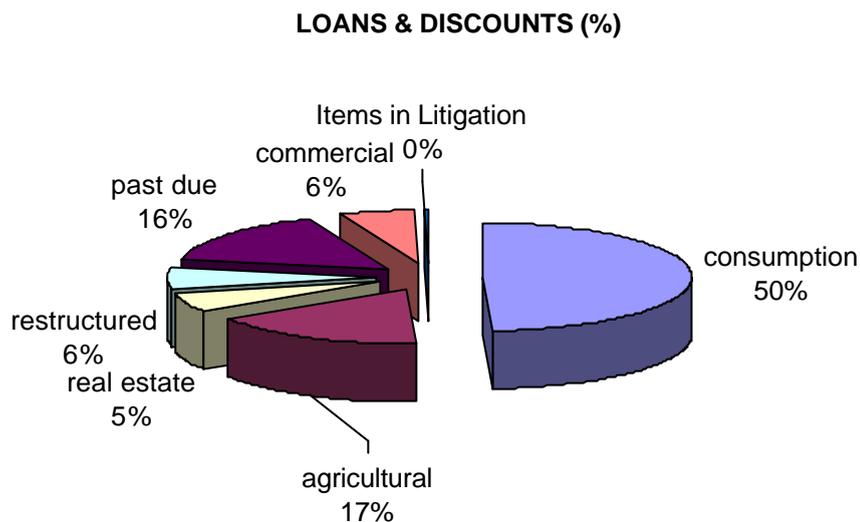
TOTAL DEPOSITS (in million pesos)



Lending Operations

Loans outstanding totaled P 891.05 million, of which 52% or P 463.5 million were consumption loans while 6% or P 55 million were commercial loans. The inability of many debtors to settle their maturing obligations, as a result of the prevailing economic difficulties, weighed on our Non-Performing Loans by 17.35% or from

P 140.4 million in Year 2002 to P 155 million in Year 2003. Items in Litigation, however, showed an improvement from P 24.16 million last year to only P 2.75 million at the end of 2003.



An additional P 1.2 million was booked as loan-loss reserve , as compliance to BSP provisioning requirements.

Our **Marginal Lending Efficiency** (additional loans generated as a result of additional loanable funds for the year) was at 10% with total loan portfolio increasing by P 62.3 million against an increase of P 656 million in total loanable funds.

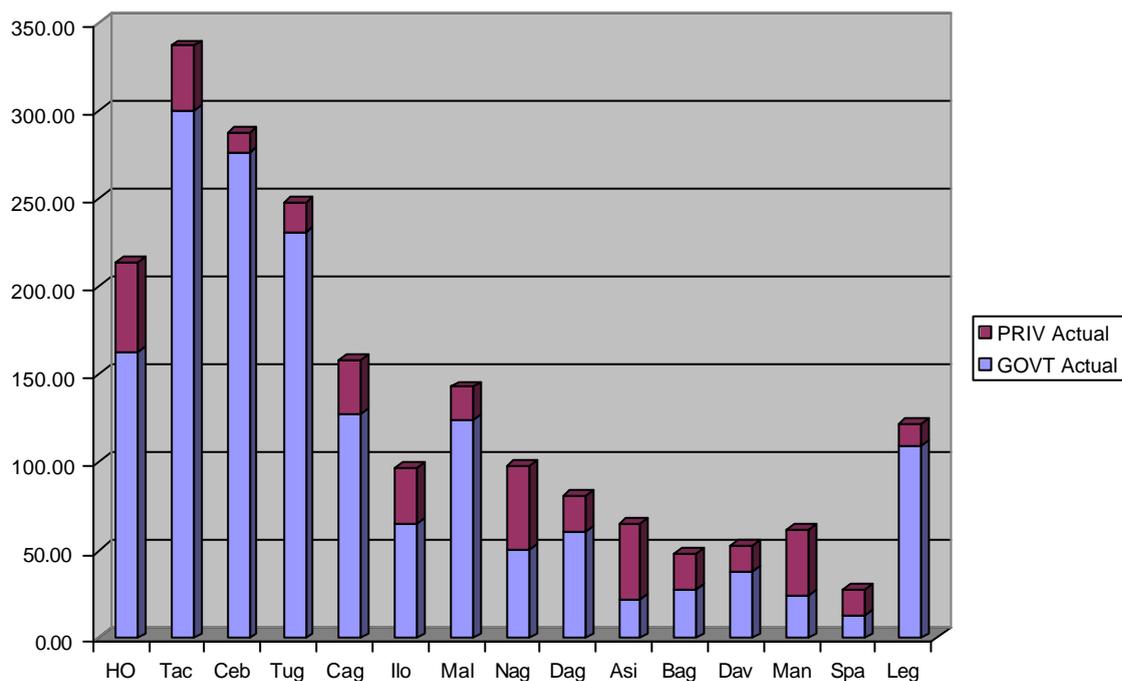
Investments

Total investments reached P 1.131 billion from P 921 million for last year or a 23% increase. Major contributor was investments in bonds and other debt instruments with an 18% increase from last year's P 719.83 million to P 846.26 million as of end December, 2003.

Branch Operations

In terms of regional branch performance, the top deposit generators among the fourteen branches were Tacloban, with P 485 million or 24% of total deposit ADB, Cebu with P 463 million or 23%, Tuguegarao with P 376 million or 18.5%, Head Office with P 333 million or 16% and Cagayan de Oro with P 273 million or 13% of total cumulative deposit ADB.

DEPOSITS BY BRANCH (in million pesos)



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Operational and Administrative Highlights

In the Year 2003, Management paved the way for the introduction of genuine reforms in both organizational and administrative aspects. The Bank's organizational set-up was structured to adapt to the demands of the

changing operational landscape. Among the very distinct features of this organizational re-alignment is the separation of the Branch Operations from the Corporate Operations Group. This will enable the Bank to give focus to two equally important arms of operations namely the Branches as the fund providers and/or generators and the the lending units which will ensure proper disposal of funds for maximum profitability.

Last year was also a period characterized by greater positive reinforcement for employees, individually and collectively, as functional units. A 22% across the Board increase in basic salary was effected which made the compensation of a PostalBanker at par with that of employees of major banking institutions. Management deemed this change necessary if we are to create a robust organization, powered by highly competent and bright individuals, which will be trail-blazers and not mere followers in an industry where innovation is the name of the game. Along this lines, it was also affirmed that incentives and awards are crucial to encourage employees to “go the extra mile”. Hence, the implementation of a comprehensive Performance Incentives and Awards Program, which will recognize individuals who have outperformed their selves and others in certain areas of the workplace.

These manifestations of encouragement will definitely make the PostalBanker ready to handle abrupt changes in the work environment, especially brought about by a rapidly changing technological paradigm.

PostalBank's Computerization Project: A LandMark Endeavor

With the vision of providing the Filipino people with a full range of professional banking and financial services accessible in all areas of the country, we believe that the introduction of new organizations, products and services, could lead to better ways of managing customer relationships as proven by the other financial agencies in the industry. We are turning into

alternative delivery channels, and existing consumers are eagerly waiting, hoping to have these new channels, on the grounds that they can avail fast, efficient, anytime access of the banking services.

Having a functional CA/SA/GL and ATM Systems are no longer considered a strategic advantage but a necessity for survival. It no longer is a question of affordability but survivability - we cannot afford NOT to have a functional system in place for a strategic positioning in the banking and financial sector.

With the strong support of the Board and management, we embarked on an aggressive automation project which entails the build up of its own network, installation of our core banking system and connection to the ATM interchange to further extend our financial services to the growing demand of our clientele.

The first phase of the project entails the implementation of a new online CASA/GL with ATM connectivity for the Head Office and the 14 branches. We have the best of breed solutions for our banking requirements to ensure that the bank has the necessary tools to compete with the cutthroat financial services environment.

For the CASA/GL & Customer Information File (CIF) Systems, we have the Equation Banking System of Misys International Banking Systems and the Electra Switch of Inteltech Resources, Inc. for the ATM/EFT Switch. Concurrently, we have partnered with IBM for our Data Center Construction and other hardware requirements. For the network devices, we have chosen Cisco, one of the worldwide leaders in the communication industry and PT&T for our connectivity requirement.

We are now on the implementation stage of the project. The first quarter of 2004 is scheduled for customization and migration activities and we project to go live production by April in the Head Office and the pilot branches. Rollout to the remaining branches is scheduled to be finished during the 2nd quarter of 2004.

Vital Undertakings for Year 2004 and Beyond

With Information Technology serving as one of the important enablers towards the attainment of our mission/vision, the Bank will embark on the following significant undertakings:

1. Pursue branch expansion (at least 20 branches for 2004), through purchase of distressed banks and locate in high volume pedestrian and vehicle traffic areas.
2. Development of additional and enhanced portfolio of products and services suited for the LGU and SME markets.
3. Private Deposit Accounts Generation Campaign.
4. Leverage technology to drive efficiencies in service delivery, effectiveness in decision-making, and overall profitability.
5. Improve the quality of our Lending Portfolio.
6. Micro-finance lending.
7. Reinforce market intelligence to keep up with competition in the industry.
8. Develop a leaner and more responsive organizational structure fueled by a stronger positive reinforcement.
9. A shift from a mindset that is activity-based to productivity-based.
10. Develop intelligent corporate policies designed to strengthen our fundamentals.
11. Develop a network of performance driven and conscious professionals.