# THE PHILIPPINE ECONOMY:
## A REVIEW OF 2001 AND PROSPECTS FOR 2002

- Global recovery will begin as early as the second quarter in 2002, according to the Asian Development Bank.
- ADB has revised the 2001 average growth in GDP down to 3.9%, 0.5 percentage point lower than the previous forecast.
- GDP growth for 2001 will slow to 2.7% compared to forecast of 3.1%. It will pick up to 3% in 2002 with a gradual recovery in the global growth.
- Inflation will come down to around 5.5%, assuming normal weather, stable oil prices and exchange rates.
- The high degree of openness of the Philippine economy especially to the US and Japanese markets makes it vulnerable.
- Electronics also comprise a high 64% share to the country's total exports, and with the current down-swing in the sector, total exports dropped.
- The Labor Department showed 1,850 companies underwent retrenchment during the period January to October 2001 for various reasons.

**HOW TO COPE UP…**

- Bankers said informed business decisions are vital to keep a company afloat.
- LandBank of the Philippines implemented measures to increase its efficiency, such as the "Separation Incentive Program" (SIP) instead of regularly downsizing its personnel.
- According to LBP Management, integration of redundant departments and regrouping of others were the most viable options.
- BPI, meanwhile, said the reduction in the number of redundant employees after the merger with Far East Bank led to the realization of better services.

**FOR BANKS, SLICING EXPENSES MAY NOT BE ENOUGH.**

- Prior to September 11, local banks have already been hounded by a portfolio of distressed assets, making profitability difficult to achieve.
- Loan-loss provisioning is starting to eat up on capital. Selling assets would be a problem. Raising fresh capital would be as difficult.
- 40% of the Banking Industry's distressed assets are shared by three of the country's biggest banks.
- Thus, banks' loan portfolios are not seen growing at an aggressive phase, with every decision to lend dictated by prudence or frugality

**THE SOLUTION: CORE COMPETENCY OR DIVERSIFICATION?**

- Banking has been traditionally all about lending. Given the NPL trend, it is now time to let go of some of the industry's bread and butter.
- It's time to focus on the non-traditionals…treasury, remittances, and consumer banking may be the key to survival in 2002.
- Treasury operations will continue to be revenue-based. We are also looking at OFWs not just as remittance customers but as an asset to our funding base.

**PHILIPPINE POSTAL SAVINGS BANK**
**2001 PERFORMANCE REPORT**

**Result of Operations**

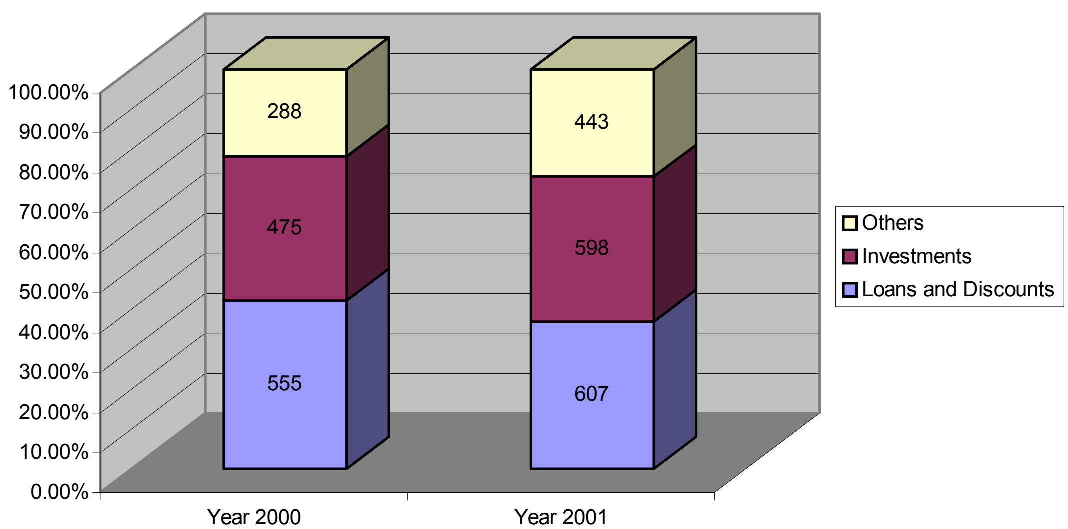
## FINANCIAL CONDITION

### Total Resources

PostalBank's resources for the year 2001 grew by 25% from P 1.32 billion in Year 2000 to P 1.65 billion in 2001. Loans and discounts account for 37% ( P 607 million), while Investments in Bonds and other Debt Instruments comprise 30% ( P 488.75 million) of Total Resources . The remaining 25% is composed of ROPOA, Trading Account Securities and other assets.

On the other hand, Total Deposit Liabilities went up by 16% from P 1.047 billion last year to P 1.21 billion this year. Stockholders' equity as of December 2001 is at P 205.22 million compared to P 195.85 million for the same period last year. Additional PhilPost equity in the form of land and building has been temporarily lodged as Future Subscription on Stock Receivables pending final approval from the Executive Department.

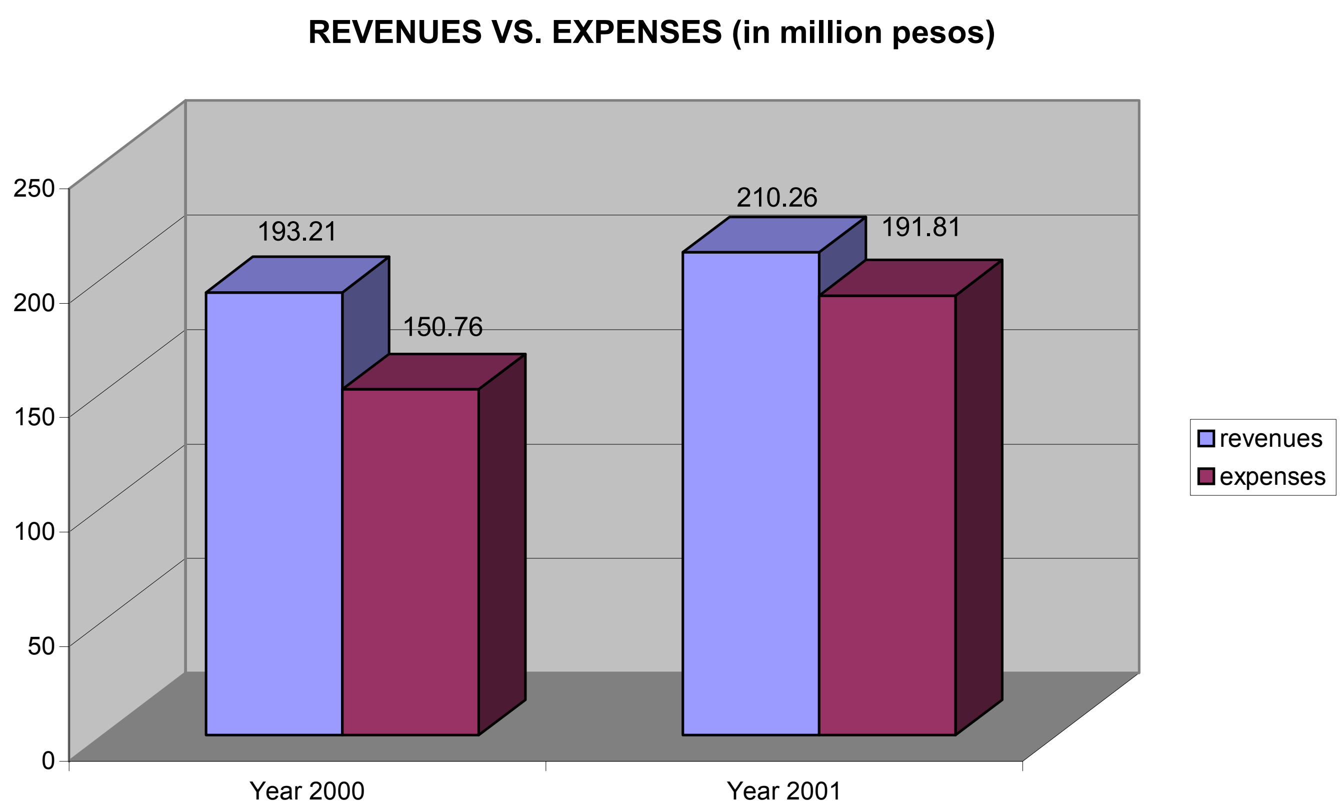
**TOTAL ASSETS (in million pesos)**




In line with its mission to mobilize savings and promote the values of thrift, industry and prudence, the Bank generated deposits totaling P 1.21 billion and has extended loans (to-date) amounting to P670.38 million as of end-December 2001. Total deposit liabilities is 76% of total target of P 1.6 billion for Year 2001. While total loan portfolio has reached 62% of the P 1.09 billion loanable fund target for the year.

**Profitability**

Total Operating Income for the year reached P 138.7 million, 7% higher than the previous year's level of P 129.4 million. Interest income totaled P 128.8 million from P 120.4 million in the Year 2000, with interest income from loans contributing P 138.6 million, as against last year's P 125.4 million. Fee based income posted a modest increase of 10% from P8.9 million to P9.8 million.




On the other hand, total expenses went up to P 191.81 million from P 150.76 million, or 27% higher than 2000. Interest expense takes up a substantial portion, accounting for 33% (or P 64.7 million) of total expenses. Next is Compensation and Fringe Benefits at P 47.8 million accounting for 25% of total expenses. Compensation shows an increase of 23% from last year, of which salaries and wages comprise almost P 32 million, still below year 2001 budget of P 34.4 million.

Lastly, Other Operating Expenses reached P 63 million or 33% of total expenses. This is 14% higher than last year. The increase in Operating Expenses is due, among others, to the following :

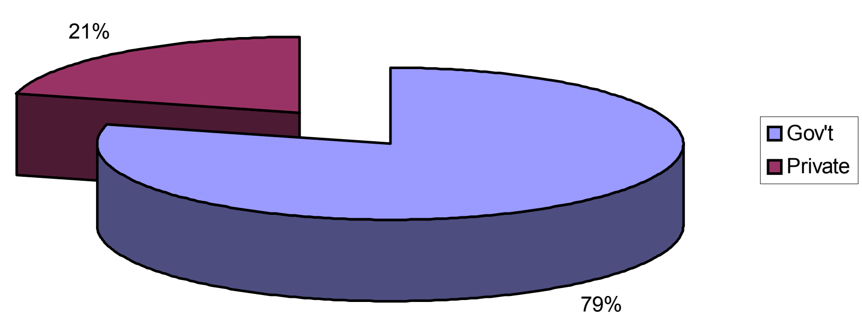
- Increase in taxes ( including Gross Receipts Tax) licenses, insurance and rentals, combined by P 4.45 million.
- Increase in light, water and electricity by P 767,000.00
- Increase in traveling expense by P 442,000
- Increase in secretarial, messengerial, and janitorial expenses by P 645,000.

**Although we booked additional loan-loss provisioning of P 4.3 million for the year and additional provision for income tax of P 2.7 million, the bank still managed to net an income of P 18.45 million as of Year-end 2001.**

**<u>Deposits</u>**

Of the total deposit ADB of P 1.215 billion, Tacloban Branch contributed P 229.86 million or 19% followed by Tuguegarao Branch at P 142.88 or 12%. Head Office accounted for 10% of deposit liabilities at P 126.29 million.

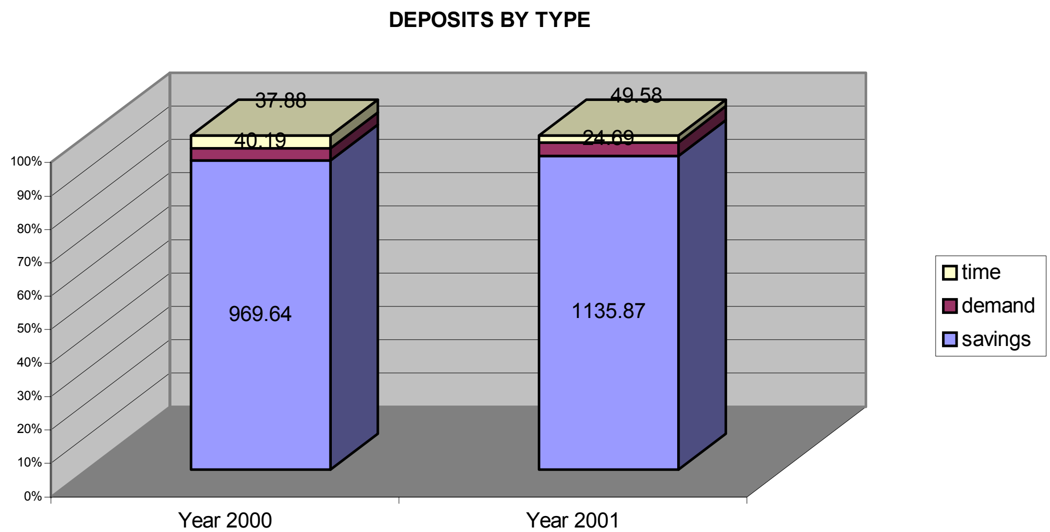
**DEPOSIT MIX (in million pesos)**




In terms of deposit mix, the bank generated 79% of its total deposits or P 962 million from government entities, while the rest which stands at P 253 million or 21% of total deposit ADB was contributed by the private sector. This is short of the Year 2001 goal of a 65:35 mix in favor of government deposits.

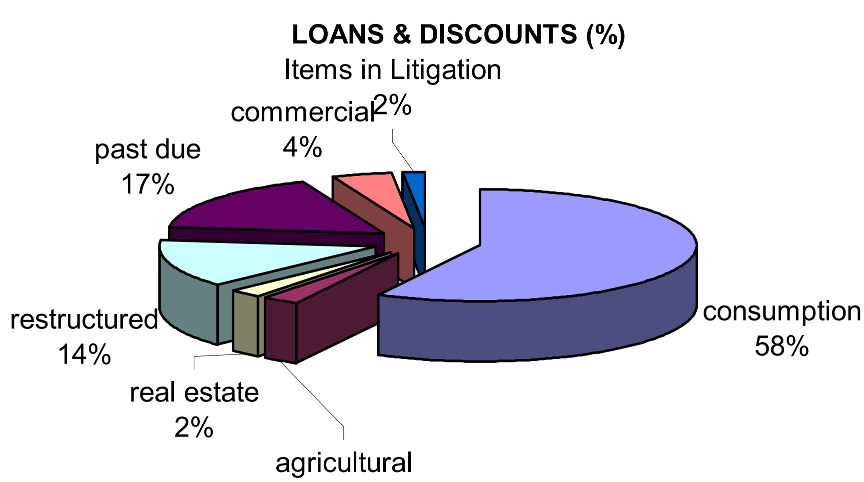
## Deposit by Type

By type of deposits, 94% were savings deposits up from 93% from last year. Time deposits comprise 2% of total deposit liabilities while demand deposits, 4% for the year 2001.




## Lending Operations

Loans outstanding totaled P 670.38 million, of which 58% or P 386.94 million were consumption loans while 4.4% or P 29.47 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 18.65% or from P 70.69 million last year to P 125 million this year. Items in Litigation also climbed from P 7.15 million last year to P 11.66 million at the end of 2001.



An additional P 2.62 million was booked as loan-loss reserve as a result of the re-classification of some accounts, as compliance to BSP provisioning requirements.

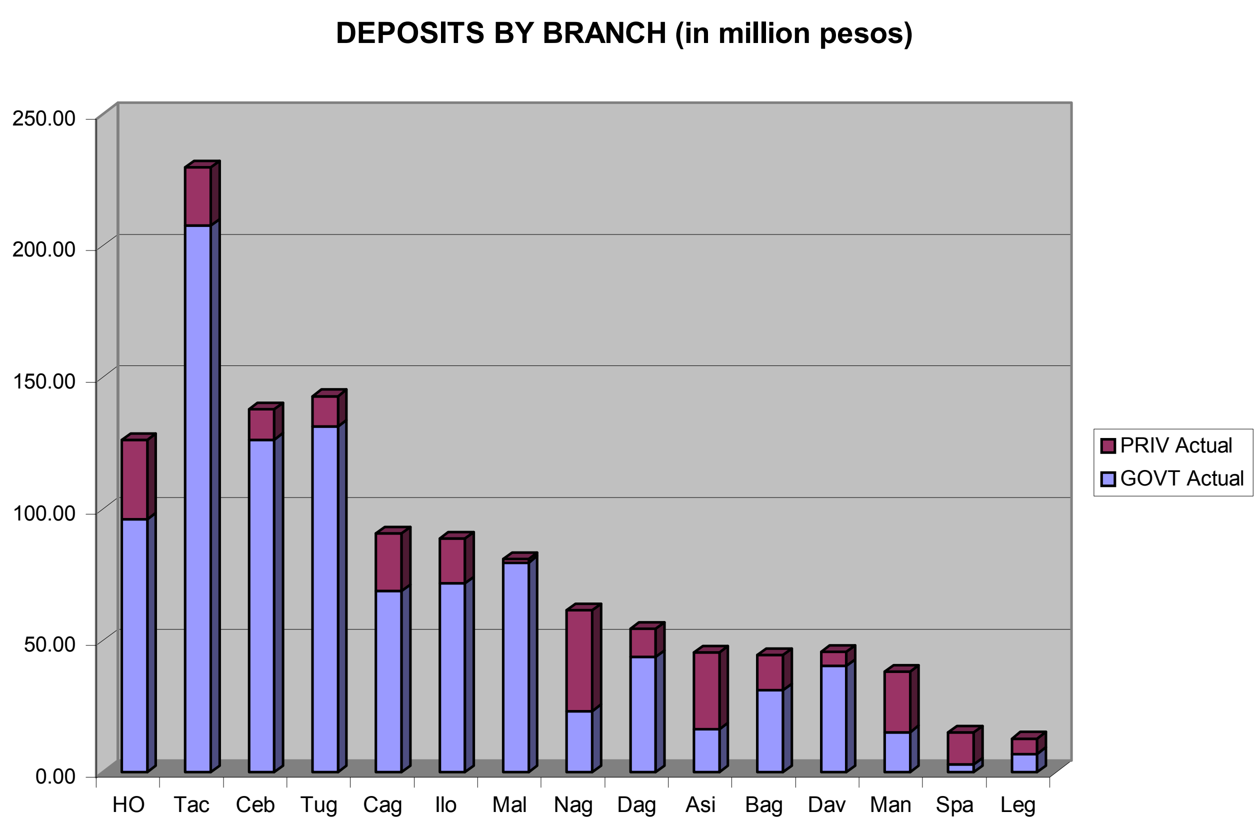
Our **Marginal Lending Efficiency** ( additional loans generated as a result of additional loanable funds for the year) was at 61% with total loan portfolio increasing by P 56.7 million against an increase of P 92.3 million in total loanable funds.

## Investments

Total investments reached P 598.25 million from P 475.45 million for last year or a 26% increase. Major contributor was investments in bonds and other debt instruments with a 35% increase from last year's P 362.45 million to P 488.75 million as of end December, 2001.

## Branch Operations

In terms of regional branch performance, the top savings generators among the fouteen branches were Tacloban, with P 229.86 million or 19% of total deposit ADB, Tuguegarao with 12% or P 143 million, Cebu with P 138 million or 11%, Head Office with P 126 million or 10% and Cagayan de Oro with P 90.75 million or 7% of total cumulative deposit ADB.



**Other Administrative and Operational Matters**

The bond between the Mother company, the Philippine Postal Corporation, and PostalBank was sealed and strengthened with the creation of the PhilPost-PostalBank IT Integration Task Force. Its objective is to closely align the business plans, business information and business processes of the two institutions, leading to the integration of IT business processes with re-engineered cross-functional processes focused on customers and benefit new business opportunities.

Chaired by PostalBank President and CEO Juanito A. Magno, the team brings with it the experience and expertise of business development and IT people from both the PhilPost and PostalBank. Using the CADIME ( Clarify, Assess, Develop, Implement, Monitor, Enhance) approach, the joint task forces shall work closely to attain business-driven information re-engineering.