

Philippine National Bank

AUTHORIZED DEPOSITORY OF THE REPUBLIC OF THE PHILIPPINES

RENATO J. FERNANDEZ
CORPORATE SECRETARY

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Atty. Jose G. Cervantes
Senior Vice President, Disclosure Department
Philippine Stock Exchange
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Ortigas Center, Pasig City
Fax No. 636-0809

Dear Atty. Cervantes:

Attached for your information is a Press Release of the Philippine National Bank (PNB) regarding the results of the January-September 2002 Operations of the bank.

For the PSE's info.

Very truly yours,



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DISCLOSURE

OCTOBER 18, 2002

Date



PRESS RELEASE

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Results of January-September 2002 Operations:

PNB rehab program posts tangible results

FOUR MONTHS after the signing of the Memorandum of Agreement between the Lucio Tan Group and the Government on May 3, 2002, the outlook for PNB's early recovery is getting brighter as the initiatives of the new management team at the helm start to bear fruit.

On the financial front, PNB President Lorenzo V. Tan reported that the Bank has posted better than expected financial performance for the three quarters ending September 2002.

In its income statement for the nine-month period ending September 30, 2002, PNB reported a net loss of PhP1.5 billion. The amount indicates an incremental net loss of only PhP117 million for the third quarter, which is a big improvement compared to the first two quarters net loss amounting to PhP783 million and PhP619 million, respectively. The accumulated net loss of PhP1.5 billion represents a 72 per cent improvement from the PhP5.3 billion net loss sustained by the Bank during the first 9 months of 2001.

Under the rehab program jointly crafted by the government and the private shareholders led by the Lucio Tan (LT) Group, PNB projected a net loss range of PhP2.9 to PhP3.1 billion for its 2002 operations. The Bank has kept the actual loss under control through a combination of revenue generating and cost cutting initiatives.

The Bank is close to wiping out its negative net interest margin, which now stands at only PhP19 million for the 9-month period ending September 2002. The improvement can be traced to a number of factors, including the substantial reduction of the Bank's debt burden with the implementation of the debt-to-equity conversion provision of the MOA, the prevailing low interest rate that enabled the Bank to pare down its cost of funds, and the PhP4.8 billion growth in the volume of low-cost current and savings account deposits (CASA) from September 30, 2001 to September 30, 2002.

On the other hand, cost management efforts translated to a PhP593 million reduction in other expenses over the same period last year.

The Bank has also reduced non-performing loans (NPLs) to PhP48.9 billion, a reduction of PhP2.3 billion, or 4.5 per cent from PhP51.2 billion for the same period last year.

PNB is also aggressively raising the level of its low cost deposits to protect the Bank from future interest rate increases through its 324 domestic branch network. Customer and non-customer contact units of the Bank are currently engaged in a race to bring in new customers, and at the same time, secure greater patronage from existing depositors.

With the prevailing soft market for corporate lending, the Bank focused on improving its fee-based business from its trade finance, deposit products and remittance activities. This translated to PhP1.1 billion in revenues derived from service charges, fees and commissions, a significant growth of PhP133 million or 15 per cent from PhP917 million for the same period last year. In addition, bigger gains were posted from the trading of investment securities which surged to PhP227 million for the first nine months of the year, or 846 per cent better than the PhP24 million gains realized over the same period last year.

Organizational Strengthening

To help carry out its rebuilding program, PNB has beefed up its management team with top-caliber veterans from the industry, which include former leaders from Deutsche Bank, Citibank and leading local banks.

These are Executive Vice Presidents Federico Cadiz, Jr. for Asset Management and Asset Sales, Anthony Q. Chua for Global Operations, Omar Byron T. Mier, EVP and Chief Credit Officer, and Carmen G. Huang as Chief Financial Officer; First Senior Vice Presidents Michael O. de Jesus for Corporate Banking, Ismael R. Sandig for Domestic Banking; and Mr. Renato J. Fernandez, Corporate Secretary.

With the appointment of key people to lead the Bank's key business units, President Tan projects a more sustainable improvement in the Bank's operations. Organizationally, the thrust is towards transforming the Bank into a more dynamic marketing-oriented and sales organization.

The new head of the Asset Management Sector is set to transform the Bank's asset management from a mere custodian of acquired assets to a highly aggressive business unit that is capable of creating incremental values on foreclosed assets in preparation for their disposal.

As of third quarter this year, PNB has approved ROPOA sales of PhP1.9 billion, with estimated gross profit of PhP600 million.

Mr. Cadiz is pursuing a two-pronged approach in managing the Banks over PhP25 billion ROPOA portfolio: one, treat assets with income generating potential as business concerns; and the other is to maximize yields out of these assets through securitization, joint ventures or development.

Mr. Chua initiated quality standards to improve efficiencies in the Bank's service delivery chain. Initially, this covers the cash management, clearing, and loans administration divisions. This is expected to cascade to the frontlines where the Bank's customers will be able to experience better service from their branches.

On the other hand, Mr. Mier is initiating measures to promote a globally risk-rated loan portfolio for the "good bank" side of PNB. His strong background on credit and risk management is expected to ensure effective and responsive credit policies as the Bank prepares for loan growth in 2004.

For his part, Mr. De Jesus is expected to spearhead the effort to regain stronger foothold in the corporate and business markets by enhancing the Bank's relationship banking strategies. His group is also expected to seize opportunities for cross selling of PNB's financial products across industries.

Similarly, the Bank's Retail Banking Sector led by EVP Mervyn Encanto and FSVP Sandig, will also undergo a massive overhaul as branches are transformed into PNB's primary sales and service channels for its various products including those of its subsidiaries.

The new management team acknowledges that the Bank's major strengths are its extensive distribution network comprising 324 domestic branches and 81 overseas branches and remittance centers, and the strong PNB brand.

To pave the way for the streamlining of the Bank's organizational resources toward sharper focus on the customer, Management has likewise initiated morale-rebuilding programs to promote efficiency and dedication to service quality by its entire work force.

PNB's total workforce has been reduced by approximately 1,200 since 2000.

The Bank has just completed its strategic planning exercise involving 54 participants from senior management and members of the Board of Directors and Board of Advisors.

Earlier, Moody's upgraded PNB's debt and deposit ratings to stable with the new team initiating organizational reforms in the Bank. Moody's raised the Bank's rating for long-term foreign currency bonds from Ba3 to Ba1 and the rating for long-term domestic currency deposits from Ba3 to Baa3.

President Tan credits PNB's positive third quarter operating results to the hardworking, highly qualified Directors of the Bank and its dedicated officers and employees who responded to the challenge with renewed energy and direction.

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