

CHAIRMAN'S
MESSAGE



Let me start with a broad macro-economic review of 2010.

The global economy managed to bounce back in 2010 following the global financial crisis that stalled many economies in 2009. Recovery, however, was uneven across the world. Developing Asian economies, which were far more resilient, due to their healthier financial systems, recovered more quickly than their Western counterparts. The global economy expanded by 5.0%, while Asian economies' GDP grew by 9.3%. The US and Euro Zone economies moved at a slower pace with 2.9% and 1.8% GDP growth, respectively.

In the Philippines, GDP grew by 7.3%, a sizeable improvement over its 1.1% expansion in 2009 and significantly exceeding government's 5.0% to 6.0% growth target. Combined with a smooth political transition and sustained fiscal consolidation, this remarkable performance bolstered the local equity market in the latter part of 2010. Notwithstanding the potentially destabilizing effects of surges in capital inflows, economic managers tempered the Philippine Peso's rise to an average of 5.6%, while keeping average inflation at the modest rate of 3.8% in 2010 from 3.2% in 2009. Finally, the more than 30% annual surge in merchandise exports, combined with remittances worth \$18.8 billion, helped boost international reserves to \$62.4 billion, compelling rating agency Moody's to upgrade the country's credit rating outlook from stable to positive.

All these, coupled with improving market conditions and growing investor confidence, boosted the Philippine Stock Exchange (PSE) index by over 37%. Total value turnover swelled by 29.8% from the previous year and reached P1.21 trillion.

Adequate Capital for Growth

Let me now turn to the bank's financial results.

BPI's stock price likewise rose by 23% from P48.00 to P59.00 by the end of 2010. This was equivalent to a price-to-book ratio of 2.6x and resulted in a total market capitalization, by year-end, of P209.8 billion; the highest in the banking industry.

While the bank's capital adequacy ratio was above the 10% regulatory requirement, we decided to further strengthen the bank's core Tier 1 capital with a P10 billion stock rights issue in August 2010. One rights share at a price of P32.50 per share was offered for every 10.555 shares. The stock rights offer (SRO), with an oversubscription of 42%, was clearly positively received by our shareholders. Overall, 98.6% of our shareholders subscribed to the SRO.

The stock rights issue was also intended to support our future strategic growth initiatives. With a growing economy, and its resulting demand, the bank's capital base had to be strengthened to have the capacity to extend credit, expand the balance sheet, deepen relationships with existing clients, develop new market segments, and pursue inorganic

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growth opportunities to augment organic growth. We saw the merits of this capital raising exercise early in 2010 as our loans and deposits registered above-industry growth from the beginning of the year. In addition, we were able to add momentum to our trust portfolio by acquiring the trust and investment management business of ING Bank, N.V. Manila.

Despite the above par growth performance, our Tier 1 capital ratio still registered an improvement from 13.0% to 13.9%. Our Internal Capital Adequacy Assessment Process (ICAAP) further defined a capital buffer of 0.25% over the 10% Pillar I minimum capital adequacy ratio (CAR) to cover exposure to other risks beyond those defined under Pillar I. Our internal CAR was set at 10.25%, and a Management Action Trigger (MAT) of 100 basis points above the regulatory CAR of 10% or 11% was likewise defined for internal monitoring purposes. We submitted this second version of our ICAAP document to the Bangko Sentral ng Pilipinas (BSP) and held a second dialogue with them.

Prudent Risk Management

Parallel to our growth strategies, we put emphasis on our internal processes, making sure they were constantly upgraded and relevant at all times to our environment. We also strengthened the important roles of our various Board Committees, ranging from policy approvals to the review and assessment of the bank’s risk exposures, internal controls and compliance.

We are happy to report that our net 30-day non-performing loans (NPL) ratio improved to a historic low of 2.1% due to the resolution of long-dated NPLs through intensive collection, remedial management efforts and appropriate write-offs. In addition, we also strengthened our specific loan loss reserve cover from 67% to 82% by providing 100% reserves on over 3 year old unsecured NPLs and setting up collective impairment loss reserve on current loans with credit risk ratings of one to six.

In order to transition from the standardized approach to the Foundation Internal Ratings Based (IRB) approach in calculating credit risk capital charge, we completed the calibration of the Probability of Default (PD) per rating grade and the estimation of risk weights for large corporate exposures. The shift to the IRB approach is expected to provide us with capital relief but its implementation is still subject to an independent validation of our Internal Risk Rating System.

To reinforce risk awareness within the bank, courses such as the Operating Risk Management Overview and Information Security Risk Awareness were enhanced and transferred to

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the eLearning platform to facilitate deployment to all BPI unibank personnel.

Once again, our Internal Audit was named 2009 Corporate Partner in the Philippines by the Institute of Internal Auditors. Our Audit Committee and the Board of Directors likewise conducted a self-assessment of their performance for 2010.

BPI's Capital Adequacy, Management Quality, Earnings, Liquidity and Sensitivity to Market Risks (CAMELS) rating of 4 in the latest BSP audit remained the highest among local commercial banks. Moreover, the bank earned the gold award for its corporate governance practices in the 2009 Institute of Corporate Directors Corporate Governance Scorecard for Publicly Listed Companies.

Sustainable Banking Commitment

Our net income growth of 33% from P8.5 billion in 2009 to P11.3 billion in 2010 was, to a large measure, the result of our sustainable banking principles. This is similarly reflected in our profitability ratios, including our return on equity ratio which rose from 13.0% to 15.6% and our return on assets ratio which rose from 1.3% to 1.5%.

BPI remained the only Philippine bank with a sustainability framework that is compliant with the Global Reporting Initiatives (GRI) sustainability reporting guidelines. We had also graduated from a self-declared level C report in 2008 to a self-declared level B report in 2009 with a total of 26 GRI indicators. Our second report, called Banking on Sustainability, is a comprehensive compilation of our policies and initiatives. It covers total customer experience, open financial access, market coverage, employees and stakeholders issues, and the reduction of our environmental footprint. Moreover, we partnered with the World Wide Fund for Nature Philippines (WWF) in a Climate Risk Adaptation Project to generate socio-economic baseline data in four cities outside the National Capital Region which face challenges from climate change. We will work with the local government units to identify risk areas in these cities, share the results of the study with them, and help them craft their policies and actions in mitigating the effects of climate change.

Much of these initiatives and successes must be credited to the hard work and shared vision of BPI's management and employees, as well as the engaged leadership and guidance of our Board of Directors.

Moving forward, we remain committed to the initiatives that have led to BPI's unprecedented growth in 2010. While we intend to maintain our prudent investments and management style, we will continue to lead, push, and drive the innovations that are relevant to our clients and other stakeholders. We will likewise continue to be an active and engaged player in the country's economic development agenda and help it succeed in its path towards progressive and inclusive growth.


JAIME AUGUSTO ZOBEL DE AYALA II
CHAIRMAN

