

OUR PRESIDENT'S MESSAGE



AT BPI, WE CELEBRATED 160 YEARS OF BANKING EXCELLENCE AND MOST IMPORTANTLY, OUR COMMITMENT TO GO BEYOND WHAT WE HAVE DONE SO FAR. WE CONTINUE TO MAKE BANKING EASY AND MORE EXPEDIENT FOR CUSTOMERS THROUGH NEW PRODUCTS AND DELIVERY OF EXCEPTIONAL SERVICE. IN SUMMARY, OUR 2011 INITIATIVES REVOLVED AROUND THE MAIN GOALS OF QUALITY SUSTAINABLE GROWTH, CUSTOMER SERVICE INNOVATION, AND TEAM ORIENTED EMPLOYEE ENGAGEMENT



FOR 2011, we expected certain uncertainty in the global economy and the possibility of transmission risk to the Philippines. We thus projected a GDP growth lower than 2010 for the Philippines. We were confident however that the Philippine banking industry, being highly liquid and capitalized, will be able to weather this uncertainty.

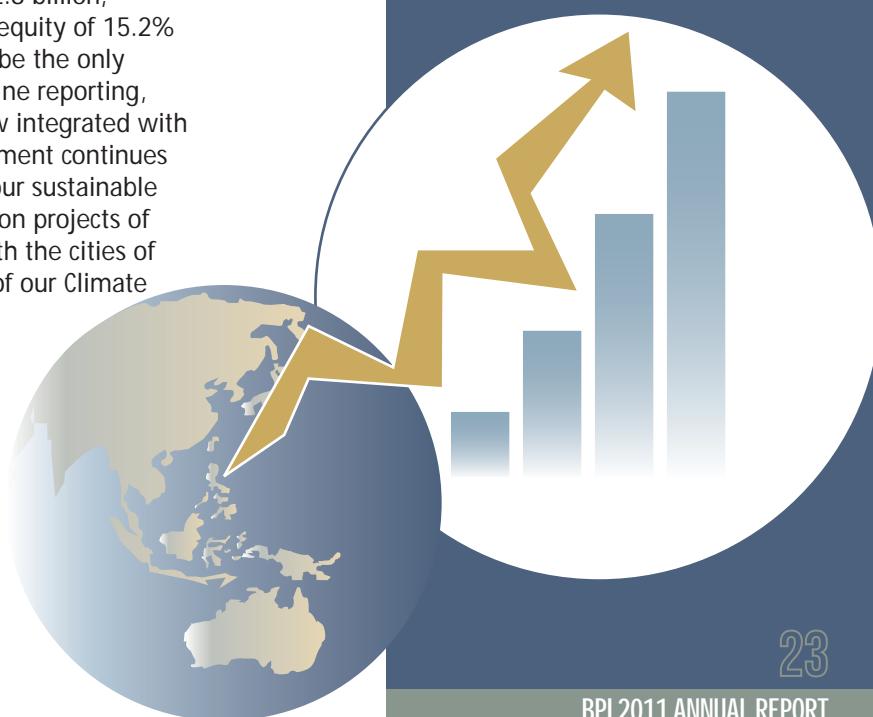
Yet, varied unexpected events happened across the world - the Fukushima and Bangkok natural disasters, the US debt crisis in August, and the deeper than expected Eurozone currency, sovereign debt, and identity crises. Fortunately, the Philippines, the banking industry, and BPI successfully thrived in this risk on, risk off environment. The Philippines, with its fiscal conservatism and purposeful drive for additional revenues, merited a credit upgrade and worldwide financial respect. The banking industry remained relatively sound, liquid, and profitable despite the low interest rate environment.

At BPI, we celebrated 160 years of banking excellence and most importantly, our commitment to go beyond what we have done so far. We continue to make banking easy and more expedient for customers through new products and delivery of exceptional service. In summary, our 2011 initiatives revolved around the main goals of quality sustainable growth, customer service innovation, and team oriented employee engagement.

Quality Sustainable Growth

Our Basel II capital adequacy ratio and tier 1 ratio stood at 14.9% and 13.4%, respectively. Our net 30-day non-performing loans ratio was a record low in fourteen years.

Our net income for the year reached Php12.8 billion, 13.4% ahead of last year with a return on equity of 15.2% for the second straight year. We remain to be the only commercial bank under the triple bottom line reporting, with our Sustainability Report for 2011 now integrated with this Annual Report. As always, the environment continues to be a vital concern of our business with our sustainable energy financing now covering Php4.0 billion projects of our customers. Furthermore, we shared with the cities of Baguio, Cebu, Davao and Iloilo the results of our Climate Risk Adaptation Project.



Our customer base reached the five million mark, ahead of plan. Our loans increased 20% in a broad based manner, as lending to all our various customer segments – large corporations, middle market, small and medium enterprises, and consumers – registered double digit growths. Supporting our loan growth was a 15% increase in low cost deposits. Our asset management business, partially complemented by the timely and beneficial acquisition of the ING investment management business in Manila, grew by a substantial 38%. The OF remittances that we serviced increased by 16%, outpacing industry growth.

Customer Experience Innovation

More importantly, we believe that we have made a difference for our stakeholders in the non-financial sphere. We continuously introduced Customer Service Innovation as best exemplified by our 'Let's Make It Easy' tagline.

Process-wise, we streamlined transacting in our branches with the installation of the BPI Express Assist (BEA) machines. These machines eliminated the deposit and withdrawal slips and require transactions to be encoded instead and sent automatically to the tellers for processing. This groundbreaking innovation was recognized by The Asian Banker with the Best Branch Automation and Networking Award.

We also deployed 100 new generation Express Deposit Machines, the first and only self-service facility in the Philippines which allows customers to deposit cash 24/7 for real time credit. This complements our almost 1,800 ATMs, further reinforcing the country's largest ATM network of BPI.

Anticipating possible client's requirements in the implementation of the shortened check clearing process of the banking industry, BPI timely responded with the BPI Check Protect Solution. This product gave our clients the option to automatically draw funding from their other deposit accounts, credit card, or even a standby loan should their checking account balance fall short for their issued checks.

Our Card Banking Group launched MyePrepaid MasterCard, a reloadable prepaid card that can be used in the widest selection of MasterCard-affiliated online shopping sites and shops, in-store and abroad. This product has worldwide POS functionality, making it an all-in-one solution for the majority of the young, upwardly mobile online-savvy Filipinos looking for cashless solution in the absence of a credit card.

For our budding entrepreneurs, the Ka-Negosyo Franchising Loan was unveiled. This product offers a Pay Lite Variant where the franchisees can pay only the interest for the first six months and the full monthly amortization from the seventh month onwards. Another variant has no collateral requirement provided the franchise is acquired from the Bank's accredited franchisors.

Our investment banking arm, BPI Capital Corporation, was the sole Issue Coordinator and Joint Lead Underwriter in the issuance of a Php10 billion fixed rate multiple put bond issue of Ayala Corporation. This offering provided multiple liquidity mechanism to bondholders as the bonds have multiple put options scheduled on the fifth and eighth year from issue date.

For our corporate customers, we designed the ExpressLink Mobile. This is the first mobile facility in the country designed for corporate financial officers to inquire on their company deposit accounts and approve financial transactions using their mobile phones.

We further enhanced our BPI Express Mobile with the introduction of BPI Express Mobile Banking App for iPhone and Android. With this, BPI Express Mobile can now be accessed in two ways, through the different telephone companies (Globe, TM, Smart, and Talk & Text subscribers) using the Menu-based Mobile Banking; and via the Internet connection on their phones with the BPI Express *Mobile Banking App*.

“FOR OUR INCESSANT EFFORT IN NURTURING OUR EMPLOYEES, BPI RECEIVED THE ASIA'S BEST EMPLOYER BRAND AWARD FROM EMPLOYER BRANDING INSTITUTE/WORLD HRD CONGRESS.”

Our microfinance mobile banking affiliate, BPI Globe BankO, launched 'community banking' which utilizes over 1,000 partner outlets nationwide for the delivery of its financial services. Clients can open bank accounts, deposit, and withdraw through these partner outlets using mobile technology.

Our Hong Kong based office, BPI International Finance Limited (BPI IFL), became an authorized distributor of PIMCO (Global) Funds and ING (Hong Kong) Funds thereby giving our BPI IFL clients direct access to some of the best global investment funds.

Bank of the Philippine Islands (Europe) Plc, opened another branch in Rome, Italy. This brings to three our total number of branches in this part of the globe.

In support of our thrust to provide access through the web, we launched several initiatives. Our Asset Management and Trust Group (AMTG) introduced its official website, www.bpiassetmanagement.com, which provides our clients with timely information and valuable financial market research to guide them in their investment decisions.

Likewise, in collaboration with our BPI Express Online (EOL), AMTG launched its full service online investment facility, BPI Investments Online, also a first in the Philippines. This allowed our clients to access their portfolio information, apply for an investment fund account, subscribe to additional funds, make regular contributions to their investments, and/or redeem their investments.

Our consumer lending arm, BPI Family Savings Bank (BFSB), likewise launched its website, www.bpiloans.com. Aside from facilitating online loan application, this site also provides a loan calculator which can show the loan amortization for a specific amount, car and real estate properties catalogues, franchise list for budding entrepreneurs, among others.

Similarly, an interactive website for our credit card holders, www.bpicards.com was rolled out. In this website, cardholders can obtain up-to-date information on card features and promos. This website also features a deal-buying site, www.dealmania.ph from where BPI cardholders can obtain discounts, price offs, and other promos from partner restaurants, hotels, and wellness establishments.

We implemented the first phase of the redesign of our existing online stock trading platform, BPI Trade, in August 2011. The site is now more user-friendly, with improved system availability, and was enhanced for the extended trading hours of the Philippine Stock Exchange (PSE).

Team Oriented Employee Engagement

A company's existence is only as good as the people working for it. That is why we engage our people not only through continuous learning and development and competitive compensation packages, but also by providing them a healthy working environment.

In 2011, we have instituted a number of learning programs such as the Relationship Manager (RM) Academy where the most basic modules have been attended by more than 90% of our RMs. We have complemented our Leadership Excellence Acceleration Program (LEAP) with the Stepping Up to Management (SUM) to strengthen the people management skills of new managers. Some 60 learning modules in MyeLearning were opened and attended by around 7,000 employees.

We are ably practicing succession planning, with high profile senior officers retiring in the past three years being replaced by equally competent but younger senior officers, ensuring that BPI maintains its strong management team. We had a speedy Collective Bargaining Agreement (CBA) settlement with the various unions of the Bank.

We continued to promote healthy, work-life balance among our employees. In 2011, we joined together in several BPI Bayan Volunteerism projects. We also conducted several Health and Wellness Fairs in our head offices as well as provincial business centers.

For our incessant effort in nurturing our employees, BPI received the Asia's Best Employer Brand Award from Employer Branding Institute/World HRD Congress.

Looking Forward to 2012

The low interest rate environment is expected to continue in 2012. We will be guided by the same three main themes above: quality sustainable growth; customer experience innovation; and team oriented employee engagement. We will differentiate through cost and capital efficiency, Relationship Managers for our key clients, and superior online and mobile banking for all. The Philippines will do better macro economy wise, and we are confident that we will similarly grow this 2012.


AURELIO R. MONTINOLA III
 President