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RESILIENT PHILIPPINE ECONOMY

from the Chairman

The global financial system weakened our economy further at the onset of 2009 as fears of worsening credit conditions in Europe triggered great uncertainty in the first quarter of the year. While the unprecedented stimulus efforts of governments around the world helped support faltering economies and aided the recovery of financial markets, they were not sufficient to prevent the global economy from contracting by 0.8% in 2009.

The Philippines was one of the few countries that managed to avert a technical recession. Philippine gross domestic product (GDP) grew by 0.9%, supported by resilient consumer spending and a rebound in the local services sector's output. The inflation rate decelerated to 3.2% after reaching an 11-year high of 9.3% in 2008. The Bangko Sentral ng Pilipinas (BSP) responded to the slow economic growth and decelerating inflation rate with a series of rate cuts that brought down policy rate by 200 basis points to a record low of 4.0%. This led interest rates on local government securities to recede by more than 100 basis points despite a fiscal deficit of P298.5 billion, equivalent to 3.9% of GDP.

The country's foreign exchange reserves rose to a new high of USD44.2 billion despite a USD4.7 billion merchandise trade deficit. The improvement in the country's external position was due, in large part, to the strength of remittances from overseas Filipinos (OFs), which reached USD17.3 billion in 2009. This supported the 2.8% appreciation of the Philippine Peso which ended at P46.20 to the U.S. dollar. These positive trends bolstered the Philippine stock market, pushing the index up by 63% in 2009, after being nearly halved between 2007 and 2008.

INCREASING SHAREHOLDER VALUE

As a result of this, BPI's stock price rose by 25% during the year to P48.00 from last year's P38.50 per share. While the market price appreciation was relatively slower than the

BPI turned in a net profit of P8.5 billion in 2009, 33% better than the P6.4 billion in 2008. The bank was the most profitable among its peer banks with return on equity improving to 13.0%. Our capital adequacy ratio of 14.7% also remained comfortably above the BSP's 10% minimum requirement.

SUSTAINABLE BANKING BUSINESS AND PARTNERSHIPS

We are pleased with the value created for stockholders during this past year and we continue to fine tune our strategic initiatives to strengthen the $bank's\, presence\, in\, the\, domestic\, market.$ Among the important considerations in our formulation of strategy are sustainability issues and our desire to be relevant to the communities we serve beyond the traditional metrics of efficient use of our risk capital. These are focused on the bank's impact along social, economic, and environmental dimensions. We have outlined these in greater detail in our 2008 Sustainability Report—`Minding Our Footprint', which was both our first report prepared along the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines, and also the

Philippine banking industry. These strategic initiatives are aligned to our desire to provide a total customer experience, to remain relevant to the needs of our community, to continue our market expansion, and to reducing our environmental footprint. We forged a number of strategic partnerships to help us achieve our goal of providing better service to our existing customers while broadening our banking reach and franchise to a much larger market.

One of these included expanding our BPI Express Mobile banking platform to include partnerships with other mobile phone service providers that will enhance the reach and coverage of our existing partnership with Globe Telecom. We have further fine-tuned our mobile banking service with a telco-agnostic Mobile Banking Applet, an internet based application, to give our customers the experience of our internet banking platform in the mobile phone, a Mobile Mall facility, and Mobile Commerce for entrepreneurs.

In our effort to reach out to a broader consumer base, we have increased our focus, in the past few years, on lending to small and medium size enterprises. We are delighted to have been recognized by the Philippine Government for our efforts with a Presidential Citation for Improving Access to Finance. Recently, we have taken our focus on Inclusive Banking a step further with the BSP



approval of our mobile microfinance bank, BPI Globe BanKO, in partnership with Globe Telecom and Ayala Corporation. This bank will cater to the needs of a much broader base of consumers, particularly those at the bottom of the economic pyramid, which remain a significant component of the country's population base. BPI Globe BanKO builds on synergies between BPI's strength in financial services and Globe's mobile commerce technology platform, which can be used to deliver affordable microfinance services to the many Filipinos who remain unbanked.

As the lead partner of the **International Finance Corporation** (IFC) in pioneering the Sustainable Energy Finance Program, BPI has also financed P1.3 billion worth of investments in energy efficiency and renewable energy projects over the past two years. This cooperation agreement was extended for another two years so that we can add value to the financially viable projects of our clients while delivering a positive social and environmental impact.

In bancassurance, BPI and Philamlife entered into a strategic partnership to form **BPI-Philam Life Assurance Corp.** through the sale of our 51% stake in Ayala Life Assurance Inc. to Philamlife. This combined entity will benefit from the combined synergies of both companies and help gain access to a wider customer base that will allow more latitude for product cross selling.

We are delighted to have been recognized for the sustainability initiatives we have been undertaking. BPI was the first bank to be awarded the Most Sustainable Bank in the Philippines in the London based New Economy Sustainability Banking Awards 2009.

ENHANCED CORPORATE GOVERNANCE

Consistent with our goal of providing customers an uninterrupted, convenient, and efficient banking experience, we ensured that our Business Continuity Management program would effectively respond to potential business interruptions. In 2009, Information Systems disaster recovery drills were conducted during banking hours, affirming the robustness our information technology infrastructure in handling unforeseen transaction volume spikes.

Our business continuity management program was also tested as the country faced a series of natural calamities in the latter part of the year. In the aftermath of typhoons Ondoy (Ketsana) and Pepeng (Pharma), our business continuity plans were activated and worked according to design. BPI was the first bank to become operational in the affected areas. Our 'Bank Anywhere' capability allowed our customers to transact in any branch as all our electronic banking platforms remained operational.

Given the volatile nature of financial markets and the competitive landscape, risk management remains one of the key components of our operational and strategic goals. While our capital level is adequate, we are at various stages of developing more advanced approaches of risk measurement which we believe will continue to be a priority as we prepare for future growth. We are currently

developing an Internal Ratings-Based (IRB) model for measuring credit risk capital charge. The adoption of this model will require the approval of the BSP and we will file an application at the appropriate time in 2010.

We also believe that our operating risk exposure is lower than the basic indicator approach computation. As such, we have initiated the recording of key risk indicators and our operating loss experience. We are also looking at utilizing internally developed models for the market risk capital charge measurement.

In compliance with BSP Circular 639 we have documented our Internal Capital Adequacy Assessment Process (ICAAP). We have submitted our trial ICAAP document to the BSP in March 2009 and we are now addressing refinements for incorporation in our ICAAP document.

Overall, we are pleased with the performance of the bank this year and are excited by the opportunities we see as we expand our reach. Our performance this year was also a product of the collaborative effort of our Board Members and our management team at BPI. Our Board of Directors, through the various Board Committees, provided guidance and valuable insights in these difficult times. Our Management and staff, in turn, responded with effective execution of strategy.

We all remain optimistic that our country's economy will improve in 2010. BPI intends to participate in this growth through a broader approach to lending, by encouraging savings and investments, by providing payment convenience, and by working within a sustainability framework that creates and enhances value for all its stakeholders.

JAIME AUGUSTO ZOBEL DE AYALA

Chairman