



**ME**

Jaime Augusto Zobel de Ayala

# SSAAGE

G4-1, G4-2, G4-EC DMA

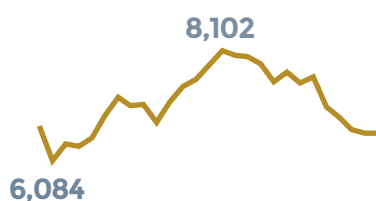
## FROM THE CHAIRMAN AND THE PRESIDENT & CEO

**A**t Bank of the Philippine Islands, we are redefining the frontiers of what is possible for Filipinos. As the Bank that Makes the Best Happen, we addressed our clients' growing financial needs, scaled up our operations, reinforced our electronic channels against risks, rooted ourselves more intimately in our communities, and increased the engagement of employees. Most importantly, we delivered record-setting financial performance, from a business focused on core repeatable earnings.

Our strong financial performance was achieved amidst some of the most volatile market conditions. Between

January 1 and December 31, the PSE Index swung between 6,084 and 8,102; our currency, between P46.01 and P50.00; and 10-year Peso government yields, between 3.12% and 5.25%. Throughout the year, we weathered the uncertainties of an increasingly interconnected world. First, remittances faced down the threat of low oil prices and restructuring in the Middle East. Then came the historic political transitions in Great Britain, in our country, and finally, in the United States. While all this happened, we continued to invest in enhancing the experience of our fast expanding client base, as well as in our infrastructure, as we aspired for excellence in operations and security.

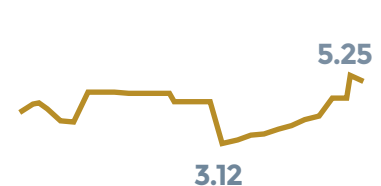
**PSE INDEX**  
DEC 31, 2015 - DEC 31, 2016



**PHP : USD FX RATE**  
DEC 31, 2015 - DEC 31, 2016



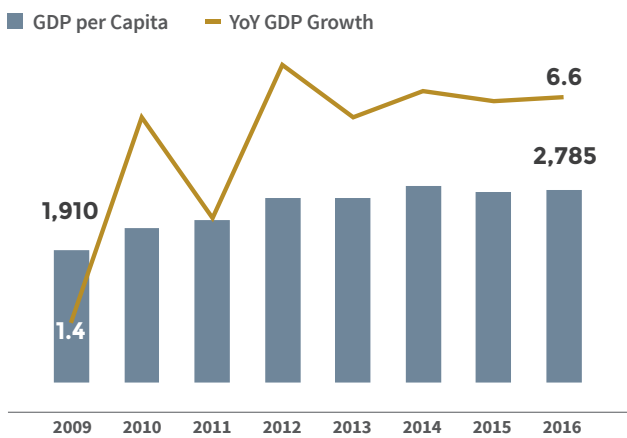
**10-YEAR PESO GOVERNMENT RATES (%)**  
DEC 31, 2015 - DEC 31, 2016



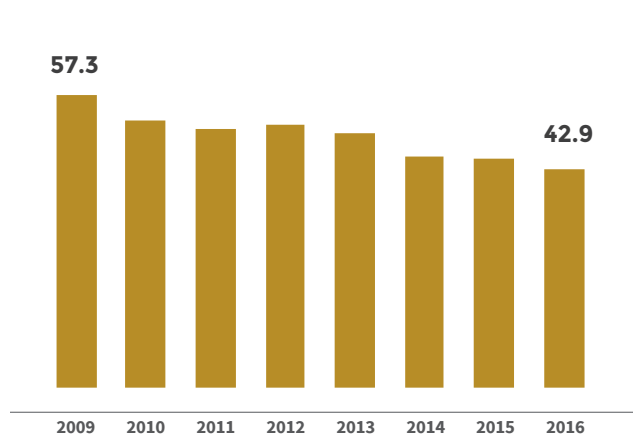
Challenges notwithstanding, we at BPI love what we do. We take great satisfaction in striving daily towards a higher purpose—to be the bank trusted most by Filipinos for their critical and most important financial needs. Our optimism in the future has not waned. The past year saw a new president assume office with a strong mandate to continue our country’s multiple reform agenda. Philippine GDP per capita now stands at approximately \$2,800, having grown at a compounded rate of 5.5% since 2009. Over the same period, our GDP grew at a compounded rate of 6.1%. With debt-to-GDP levels at 42.9% (as compared to 57.3% in 2009), we see tremendous room for additional investment in the country’s productive capacity.

While Filipinos enjoy a standard of living that is highest in recent memory, we at BPI also want to do our part in ensuring the economic pie is shared more evenly across society. We achieve this as we allocate capital across industries, and through our SME, microfinance and BPI Foundation initiatives. We aspire to help Filipinos of all backgrounds fulfill their financial dreams, and to have a significant, positive impact on the quality of their lives.

**GDP PER CAPITA, YoY GDP Growth**



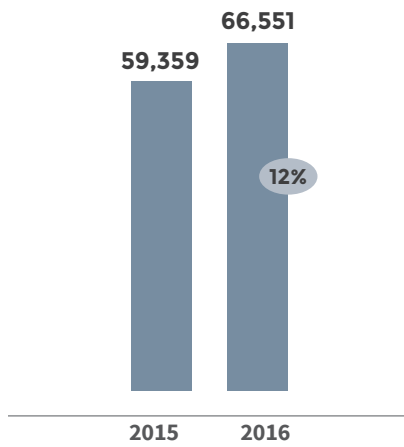
**DEBT-TO-GDP RATIO**



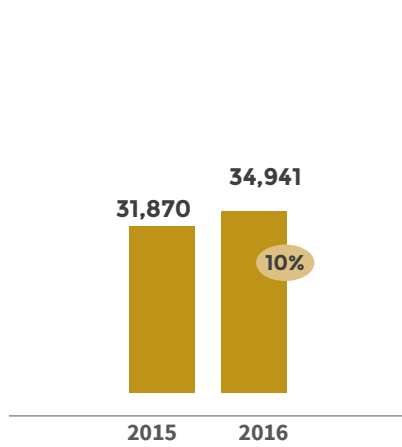
**FINANCIAL PERFORMANCE**

In 2016, BPI generated net income of P22.05 billion, up 20.9% from the previous year (see next page). Total comprehensive income also rose, by 30.2% to P21.74 billion. We generated earnings per share of P5.60, incremental book value per share of P3.72, and, once again, dividends per share of P1.80. This earnings performance translated into an ROE of 13.8% (up from 12.3% last year) and an ROA of 1.4% (up from 1.3% last year). Our cost-to-income ratio improved to 52.5% from 53.7% last year. We target to achieve, over time, an ROA of 1.5%, an ROE of 15.0%, and a cost-to-income ratio of 50.0%. We take pride in our reputation in the Philippines as a financial institution focused on both productivity and return on capital, as well as the high quality and predictability of earnings that drive these results. In all of 2016, BPI was one of only 11 PSE Index component stocks to generate positive total returns (8.0%) for shareholders .

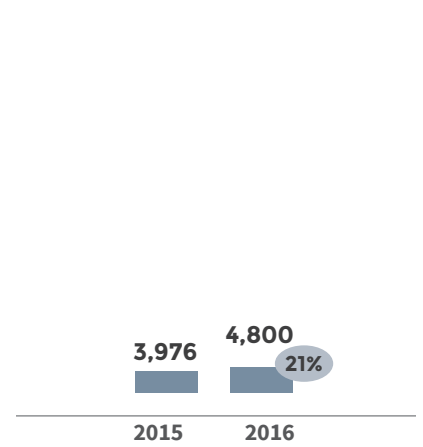
**NET REVENUES** (in Php Mn)



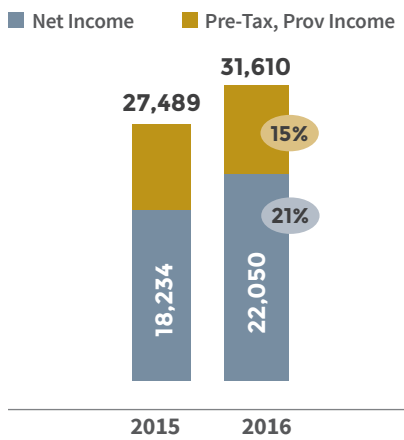
**OPERATING EXPENSES** (in Php Mn)



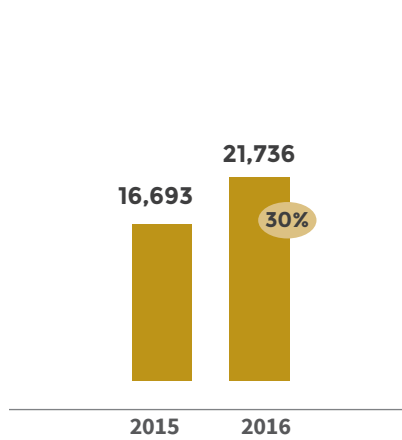
**PROVISIONS** (in Php Mn)



**NET INCOME** (in Php Mn)



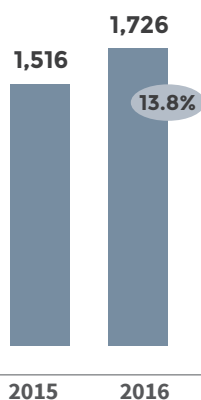
**COMPREHENSIVE INCOME** (in Php Mn)



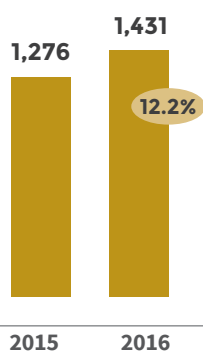
	2015	2016	▲	%
EPS (P)	4.64	5.60	0.96	21%
BVPS (P)	38.22	41.94	3.72	10%
DPS (P)	1.80	1.80	0.00	0%
COI (%)	53.7	52.5	-1.2	
ROA (%)	1.3	1.4	0.1	
ROE (%)	12.3	13.8	1.4	

Looking at our balance sheet, we crossed the P1-trillion milestone in net loans, closing the year with P1.04 trillion, up 19.2%. Deposits rose by 12.2% to P1.43 trillion. As a result of this growth differential, the Bank's loan-to-deposit ratio increased from 69.4% last year to 73.7% this year, helping drive our momentum in net interest income. Asset quality remained strong, even as our credit portfolio grew. Despite benign trends in NPLs, we booked a record amount of provisions, P4.80 billion, up 20.7%, into loan loss reserves. Consequently, as our NPL ratio fell from 1.64% of total loans to 1.46%, reserve-to-NPL cover rose from 1.10x to 1.19x. We are in advanced preparations for provisioning under an expected credit loss (ECL) regime, as mandated by PFRS 9, and believe that from the standpoint of loan loss reserves we are well-positioned when new standards take effect on January 1, 2018.

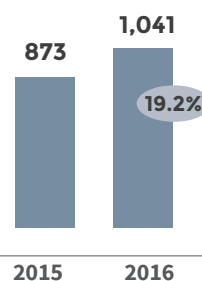
**TOTAL ASSETS** (in Php Bn)



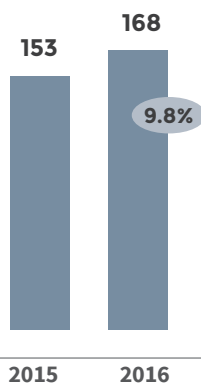
**TOTAL DEPOSITS** (in Php Bn)



**NET LOANS** (in Php Bn)



**TOTAL CAPITAL** (in P Bn)



	2015	2016	▲
NPL Ratio (%)	1.64	1.46	-0.18
Reserve-to-NPL Cover	1.10x	1.19x	0.08x
CET1 (%)	12.7	12.1	-0.61
CAR (%)	13.6	13.0	-0.59

Off balance sheet, the Bank's investment management business is, by many measures, the most robust in the country. In 2016, we grew assets under management (AUM) by 5.1% to P672.90 billion. We also recently successfully spun off our asset management business into the Philippines' first bank-originated stand-alone trust corporation, thereby strengthening the independence and focus of our asset management and trust operations, while reducing regulatory costs.

Our capital position ended the year at P167.68 billion, 9.8% above year-ago levels, and after taking into account P7.09 billion of cash dividends declared for all of 2016. Our resulting consolidated CET1 (common equity tier 1) and CAR (capital adequacy ratio) stood at 12.1% and 13.0%, respectively, well above regulatory minimums and with adequate margins to seed future growth of the Bank. We run a rigorous Internal Capital Adequacy Process (ICAAP), incorporating various capital and liquidity stress scenarios, and believe the Bank is well positioned in scenarios of higher interest rates, lower growth, and higher credit and other costs. Strong risk management, and the achievement of best-in-class risk-adjusted returns, are qualities that define BPI.

## KEY PILLARS OF OUR STRATEGY

As we build BPI around our institutional and retail clients, you can expect us to apply the following principles to our endeavors and investments:

1. Build the trust of our clients and enhance the customer experience;
2. Pursue operational excellence through efficiency and digitization; and
3. Nurture a culture of high performance.

## CLIENTS AND COMMUNITIES

BPI has led the way in offering financial services to clients based on their needs and how those needs evolve over time. In 2016, we continued to enhance training and information systems to support our front line bankers, allowing them to intelligently analyze customer interactions, improve relationships and retention, as well as drive growth in volumes.

This year, BPI became the first bank in the country to arm its relationship managers with sophisticated mobility tools, allowing them to go outside the branch and engage clients offsite, improving the convenience of client conversations. These tools are further complemented by customer relationship management systems and data analytics which personalize our client conversations and enhance sales productivity.

In 2016, we grew our client base from 7.5 million to 7.9 million. We celebrated this achievement by putting our clients at the very center of our 165th Anniversary commemorations. Our most senior executives travelled to key cities across the Philippines, where they met with some of our most important clients. This initiative was very well received by clients across the retail and corporate segments, and will be continued as an ongoing program. We also started a program that sends key officers to live in farmer communities, immersing them in the daily conditions and challenges faced by this sector.

By enabling our officers to gain a better understanding of this underserved sector, we believe that we will be able to design and execute on the financial solutions they need. Moreover, in recognition of their vital role in the economic engine of the nation, small and medium-sized enterprises were, and continue to be, an important part of our lending activities. In 2016, the growth of our Ka-Negosyo loans to SMEs outpaced that of the industry.

We have also made great strides in financial inclusion. BankKO is now a wholly owned subsidiary of BPI, focused on delivering affordable financing solutions to self-employed micro entrepreneurs (SEMEs). Through the BPI Foundation, we offer numerous programs and pursue partnerships to support social entrepreneurs and farmers.

Actions like these led us to be recognized for both our reach and inclusion, receiving awards such as the Philippines' Best SME Bank by *Alpha Southeast Asia*, Best Domestic Bank by *FinanceAsia*, and Best Bank by *The Corporate Treasurer*.

## OPERATIONAL EXCELLENCE AND DIGITIZATION

The development of our economy and the shifts in our living standards are leading to rapid changes in consumer behavior. Our clients benefit more from our Bank Anywhere service, enjoying the convenience of access to our traditional and electronic channels. We strive to give them more sophisticated information to assist in their financial decisions, increased safety, innovation, and convenience.

BPI continues to innovate to keep pace with these changes. In 2016, we were one of the first banks in the country to deliver an image-based check clearing service, enhancing the speed and accuracy by which we process payments for our clients. In tandem with innovations like this, we also successfully launched the first Security Operations Center (SOC) among major Philippine banks.

Our SOC integrates both physical and technological aspects of our security network, and has been successful in supporting law enforcement efforts in transactional security.

In the future, you can look to BPI to lead the way in digitizing the Philippine financial landscape, improving access to financial services, enhancing customer experience across multiple channels, and complementing focused service and fulfillment.

### CULTURE OF HIGH PERFORMANCE

BPI is a force of 15,201 unbankers, committed every day to providing Filipinos with the best solutions for their varied financial needs. We cultivate a culture among our employees not just of customer service, but also of alignment with shareholders in matters of governance and financial performance. Through our equity-linked compensation programs, over 70% of our officers now participate in the performance of BPI's stock. This participation has expanded since 2013, when the Bank first implemented multi-year stock purchase and stock options programs.

Furthermore, we launched our Defined Contribution program, which is now the standard offered to all newly onboarded officers. This program offers BPI employees newfound control over and accelerated access to their retirement savings. This also reduces the volatility in the Bank's year-to-year contributions to its pension plans. As of end-2016, 26% of all BPI officers participated in our Defined Contribution program. Over time, the number of participants in the DC program will outnumber that of our Defined Benefit program.

We constantly invest in our talent pool. Our employee engagement scores are among the highest in the industry.

Last year, we invited a subset of our top-performing junior and mid-level officers to participate in BreakThru programs designed and facilitated by Louis Allen Worldwide, a change management firm. These programs have been successful in cultivating your Bank's future leaders by promoting a culture of challenging the status quo, encouraging process improvement, and promoting cross-organizational teamwork.

### LEADERSHIP

Our high operational standards, strong risk management, financial strength, and reputation for integrity are a result of continued focus from our highest governance team: our Board of Directors. The year 2016 has been no exception. We gained significantly from their diverse expertise and insight amidst a fast-changing financial landscape. We are grateful for the guidance that they provide our management team, as well as their care of the interests of all our stakeholders. Finally, we are grateful for the hard work, skill, and compassion of our unbankers, as they strive every day to help our clients fulfill their dreams.

Sincerely,



**JAIME AUGUSTO ZOBEL DE AYALA**  
Chairman



**CEZAR P. CONSING**  
President & Chief Executive Officer



Cezar P. Consing