

# MESSAGE FROM THE CHAIRMAN AND THE PRESIDENT & CEO

Dear Shareholders:

**L**ast year, we announced our strategic priorities to digitalize the Bank, grow our SME and consumer loan businesses, and increase financial inclusion.

Since then, we have laid the foundation that will allow us to achieve these strategic initiatives. To help fund our digitalization efforts and support the growth of our loan portfolio, we underwent various fund-raising exercises. Each transaction was an overwhelming success, each setting its own record.

In May, we raised Php 50 billion from a stock rights offering, the largest capital markets transaction undertaken by the Bank. We then complemented the additional equity by raising debt, a US\$ 600 million international bond in August and a Php 25 billion domestic bond in December, the largest in Philippine corporate history. We had never before raised amounts of this size in the public capital markets, which we believe is a reflection of the bold strategic initiatives that we have undertaken in recent years.

Our focus on preparing the Bank for the medium and long term did not distract us from delivering solid operating and financial results for the year. The capital we raised was very well timed. Our total assets grew by 9.5%, reaching Php 2 trillion, bolstered by a 12.7% growth in loans. High crude oil prices and a shortage of rice contributed to a rise in inflation, which peaked at 6.7% in September and October. Inflation weakened the peso, which hit a 9-year low of Php 54.34 to the US dollar. This in turn led to foreign financial investors selling Philippine listed stocks, causing a 12.8% decline in the PSEi. The BSP responded by raising policy rates five times during the year, for a cumulative increase of 175 basis points. The higher interest rates were more apparent, at least initially, on the deposit-taking side of the Bank. We were in the fortunate position of having the capital resources to forego high cost time deposits. At the end of the year,

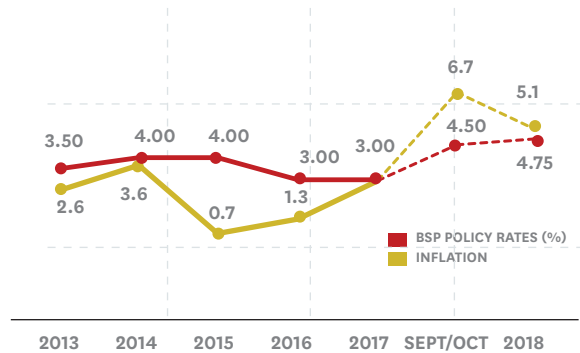


**CEZAR P. CONSING**  
President & Chief Executive Officer

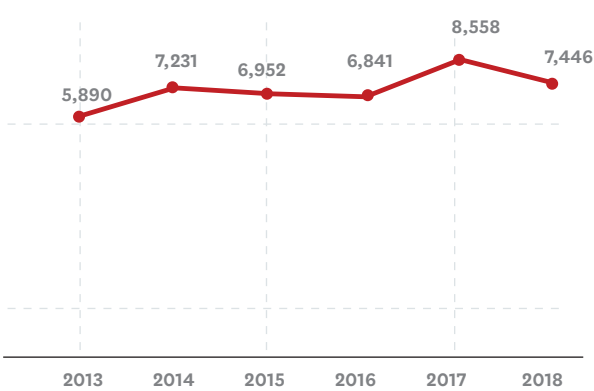
**GDP GROWTH (%)**



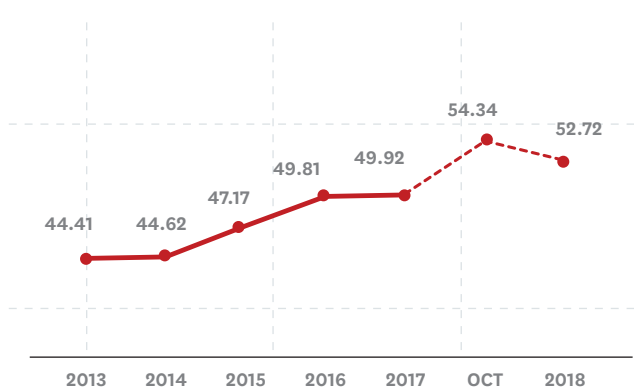
**INFLATION, BSP Policy Rates (%)**



**PSE INDEX**



**PHP: USD RATE**



Source: GDP growth & Average Inflation: Philippine Statistics Authority (PSA)  
 BSP Policy Rates & PHP:USD Rate (End of Period): Bangko Sentral ng Pilipinas (BSP)  
 PSE Index (End of Period): Bloomberg (PCOMP)

our CASA ratio stood at a strong 72%, while our loan-to-deposit ratio stood at an all-time high of 85.4%, indicative of a more efficient balance sheet. Most importantly, our average net interest margin was up by 21 basis points, the most significant increase in over a decade. This drove a 3% increase in after-tax net income to Php 23.1 billion.

The combination of a robust capital position and strong core business results have allowed us to embark on Phase Two of our digitalization journey. Phase One,

which took almost three years, involved building the foundational digital infrastructure, which also meant delaying the technology architecture of the Bank. We built a state-of-the-art cybersecurity operations center, upgraded our core systems and adopted Agile to create capacity, improve turnaround times, and enhance customer experience. This phase supported a 13.8% average annual increase in transaction volumes over the same period. We spent Php 11.6 billion in technology in the last three years, with over a third of the amount

devoted to building capacity and capability in new, cutting-edge ways.

Digitalization has to serve the businesses, and we want to make sure our technology investment is in support of some of our highest margin businesses. Last year, we prioritized SME lending by launching the Business Bank; Consumer lending, by re-engineering our housing and auto loan processes; and Microfinance, by opening an additional 100 Banko branches, taking the total to 200 branches. Our goal is to see that our SME loans, consumer loans, and

microfinance loans will over time account for a larger percentage of our total loan book, which today is predominantly corporate in nature. This will translate into higher loan yields and better net interest margins for the loan portfolio as a whole.

Phase Two of our digitalization efforts will involve nine focus areas: the orchestration of a digital ecosystem; becoming the partner of choice for digital platforms and ecosystem owners; reshaping payments in the country; pushing financial inclusion; digital lending and cash management for SMEs; digitalizing E2E processes; adopting a mobile first distribution strategy; adopting the latest digital marketing methodologies to accelerate customer acquisition; and leveraging big data and advanced analytics. Phase Two of our digitalization journey entails ramping up our investment in technology over the next three years. As the world becomes increasingly digitalized, embarking on this journey is a critical step in maintaining the competitive advantage of our franchise. A successful execution of Phase Two of our digitalization journey would, at the minimum, protect our base case revenue projections between now and 2023. If our plans fall into place, digitalization could contribute an additional 20% revenue uplift by 2023.

With even relatively new technologies being replaced by even more advanced technologies at an increasingly faster rate, we expect BPI's digital transformation to be an

ongoing process, spanning decades, with new versions of a digitalized BPI emerging every few years. Phase Two of our digitalization journey will be focused on establishing a baseline in what we refer to as the three Es: Engage, Empower, Experience.

### Engage

Digitalization will allow us to become more financially inclusive by significantly increasing our engagement with segments of the market where the banking system as a whole is woefully under-represented. These are small and medium scale companies and the lower-middle and lower-income consumer segments. The combination of high capital requirements, stringent regulations, large technology spend, an extensive physical branch network, and the increasing cost of human resources makes banking a high cost industry. With cost restrictions, banks have tended to focus their efforts on the larger corporates and the mid-and upper-income tier customers. While these segments continue to account for the bulk of economic activity, small and medium scale companies and the lower-middle and lower-income consumer segments are growing at a very fast rate. These segments require more and better banking services. Digitalization will reduce our cost to serve and will therefore permit a much higher level of engagement with these segments. Digitalization will make financial inclusion truly sustainable.

BPI Direct Banko is a great example of this proposition. This three-year

old platform makes loans to self-employed micro-entrepreneurs such as a stall operator in a public market, a beauty salon operator, and a neighborhood bakery. In its short history, Banko has made over Php 4 billion in loans to almost 60,000 entrepreneurs. As brick and mortar is important for this kind of platform, we are growing Banko at the rate of 100 branches a year to reach a total of 300 branches by end-2019. At the same time, Banko will be the first digitalized bank in the country truly focused on financial inclusion, with a robust, secure, agile, and scalable cloud-enabled system that supports basic loans, deposits and mobile wallets as well as providing access to digital channels and payments. In addition, Banko clients can access their accounts through 3,000 partner agencies.

Open Banking is another example of how digitalization allows for much greater engagement with counterparties. Open Banking refers to making our services available as application programming interfaces or APIs to fintech and e-commerce companies like G-Cash and Lazada. We are happy to see this initiative gaining traction quickly with our 40 APIs and 25 partnerships for a variety of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

### Empower

Digitalization will empower our clients, as they will be able to bank with us at any time wherever they may be, and in a manner that is attuned to their particular requirements.

For example, the number of clients enrolled in BPI's Bizlink, our cash and transaction management platform that caters to large corporate and SME clients, totals to almost 37,000 less than two years after its introduction. Companies use Bizlink for payroll, collections, and payments to suppliers. Bizlink improves upon our own Expresslink. Bizlink provides features that empower clients to facilitate access to accounts on their own, allows more flexibility to cater to clients' requirements with minimal need for programming and system or data concerns, and aligns with SSS and Philhealth requirements for timely posting, among others.

For our consumer clients, digitalization has already produced the next generation of the BPI Online and BPI Mobile App platforms. Our latest application platforms allow for funds to be transferred via the use of a QR code and feature the use of one-time PINs for security. Active users of BPI Online and BPI Mobile grew by 16.3%, making BPI the bank with possibly the highest\* digital adoption rate in terms of number of users.

**Experience**

Digitalization is about enhancing the client experience with our Bank. In the last 60 years, banking technology has undergone three distinct yet continuous phases. The 1960s and 1970s was the Mainframe Era with IBM and supercomputers. This was followed in the 1980s by the Self-Service Era, best characterized by automated teller machines or ATMs. The last ten years or so have marked

the beginning of the Experience Era, with the advent of smartphones. Ultimately, digitalization is about putting our clients front and center. This requires that we make the experience of our clients seamless as they move from physical channels like our branches, to our digital channels like BPI Online and BPI Mobile. Our digitalization will allow for an omni-channel experience, with clients being able to start a transaction in one channel and complete it in another.

Critical to enhancing the client experience is to build a digital culture within our organization. It is not only about technology, it is also about how we communicate and collaborate, the speed at which we take action and our ability to manage change. We are now focused on building a digital culture with the same zeal that we exert when growing our loan book, expanding our branch network, or improving our financial and operating metrics.

In early 2019, we moved out of our almost 40-year old headquarters along Ayala Avenue. When it was completed in 1979, it was the tallest and most advanced building in the country's central business district. Today, while it is dwarfed by many other structures, it continues to stand for everything that makes BPI special — trust, financial strength, and the unwavering desire to always do right by our clients, our shareholders, our employees, and our country.

We will tear down our old building and replace it with a modern complex that will symbolize our confidence in the future. As an institution that has survived and thrived for 167 years, under multiple economic and political cycles, we attribute our success to our ability to constantly evolve with the needs of the times.

We thank you, our shareholders, for your continued support. We thank our Board of Directors for their guidance and counsel. We thank our employees for their loyalty and dedication. We are BPI — Ready Today. Ready Tomorrow.



**JAIME AUGUSTO ZOBEL DE AYALA**  
Chairman



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

\*BPI Mobile app is ranked #1 and #4 in the Philippines in terms of number of downloads and active users under the Finance category of Apple App Store and Google Play, respectively. This is based on the March 31, 2019 report of Similar Web, which provides web traffic analytics and market intelligence reports.