



## 2019 BPI Annual Stockholders Meeting

President's Speech

Cezar P. Consing

To our shareholders, business partners, and clients, welcome to our annual gathering.

What I'd like to do now is share with you where we are in our digitalization journey, which is one of the key pillars of our strategy.

It is a particularly timely topic. Three weeks ago, we undertook a deposits systems upgrade. The system is core to almost everything we do, and must be state-of-the-art if our digitalization initiative, which has tripled the number of online transactions in barely 5 years, is to continue its momentum. Our legacy system is 3-4 decades old, highly customized, and no longer compatible with new system versions that would allow for increased capacity.

Unfortunately, a process that in a test environment took less than a day to complete, and had been scheduled over a full weekend, spilled over to the following week, inconveniencing many of our clients. The undertaking was enormous. We made changes to 21,000 programs, 15,000 lines of codes and 5,100 copy books --- over 41,000 changes in all. Clearly, this was a challenging exercise, and we regret the inconvenience that this caused. But digitalization is the future; and we will stay the course. Our clients deserve the best of what the future has to offer.

Now let me talk about our digitalization journey more broadly.

Phase one, which took almost three years to complete, involved building the foundational digital infrastructure, which also meant layering the technology architecture of the Bank. We built a state-of-the-art cybersecurity operations center, commenced with the upgrade of our core systems and adopted agile to create capacity, improve turnaround time, and enhance customer experience. This phase supported a 13.8% average annual increase in transaction volumes over the same period.

We have spent Php 11.6 billion in technology in the last 3 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 three areas: SME loans, consumer loans, and microfinance.

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 branches, taking the total to 200. Our goal is to see that our SME loans, consumer loans, and microfinance loans, will over time account for a larger percentage of our 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 focus on 9 areas:

1. The orchestration of a digital ecosystem;
2. Becoming the partner of choice for digital platforms and ecosystem owners;
3. Reshaping payments in the country;
4. Pushing for financial inclusion;
5. Digital lending and cash management for SMEs;
6. Digitalizing E2E processes;
7. Adopting a mobile first distribution strategy;



8. Adopting the latest digital marketing methodologies to accelerate customer acquisition; and
9. Leveraging big data and advanced analytics

As the world becomes increasingly digitalized, embarking on this journey is a critical step to maintaining the competitive advantage of our franchise and growing our business. A successful execution of Phase Two of our digitalization journey could contribute an additional 20% revenue uplift over and above our base case projections by 2023.

Phase Two of our digitalization journey will be focused on establishing a baseline in what we refer to as the 3 Es:

Engage more  
Empower clients  
Experience everyday

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 (or SMEs) and the lower-middle and lower-income customer 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 an industry where costs are becoming more pronounced.

With cost restrictions, banks have tended to focus their efforts on the larger corporates and mid-upper income tier customers. While these segments continue to account for the bulk of economic activity, SMEs and the lower-middle to lower-income consumer segments are growing at very fast rate. 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 reincarnated platform makes loans to self-employed micro-entrepreneurs such as a stall operator in a public market, a beauty salon operator, or 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 a rate of 100 branches per year to reach a total of 300 branches and branch-lite units by the end of 2019. At the same time, BanKo will be the first digitalized bank in the country truly focused on financial inclusion. It will have a robust, secure, agile, and scalable cloud-enabled system that supports basic loans, deposits and mobile wallets as well as provides access to digital channels and payments. In addition, BanKo clients can access their accounts through 1,700 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 with our 40 APIs and 10x more partners for a variety of platforms that facilitate online shopping, travel, payment of utilities, and the transfer of funds to e-wallets.

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 responsive 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 almost 37,000 less than 2 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 QR code, feature the use of one-time PINs for security and allow clients to set account control features. Our BPI Mobile App is the most downloaded Philippine finance application in both the Apple App store and Google Play based on the March 29, 2019 report of Similar Web, which provides web traffic analytics and market intelligence reports. Active users of BPI Online and BPI Mobile grew by 16% in 2018.

We believe that today we are the Philippine bank with the highest digital adoption rate in terms of number of users.

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 the 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 focus that we apply when growing our loan book, expanding our branch network, or improving our financial and operating metrics.

Earlier this year, we moved out of our almost 40-year old headquarters on 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 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 varying economic and political conditions, we attribute our success to our ability to constantly evolve with the needs of the times.

In closing, my Chairman, Vice Chairman and I would like to 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.