

Message

from the Chairman

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RESILIENT PHILIPPINE ECONOMY

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

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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 of 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

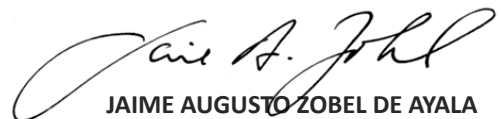
developing an Internal Ratings-Based (IRB) model for measuring credit risk capital charge. The adoption of this model will require the approval of the BSP and we will file an application at the appropriate time in 2010.

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

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