



JAIME AUGUSTO ZOBEL DE AYALA | Chairman

# FROM THE CHAIRMAN AND THE PRESIDENT & CEO

Engine of Success

*Dear Shareholders,*

**W**e are extremely honored to be of service to BPI, and to be working for you—our shareholders—as well as the customers and communities that support us. The year 2015 had its moments of financial volatility, and the Philippine economy felt tremors from global markets. In an environment laced with uncertainty about the policy actions of the world's most influential central banks, we made considerable gains in strengthening the quality of our business with shared value as a cornerstone. Our relationships with clients grew stronger. Our transaction volumes expanded. We remained disciplined in our approach to risk. We continued to lead not only by innovating in services, but also by combining these services in ways that helped our clients succeed. For very

many of our clients, We Made the Best Happen.

The Philippines stands on the threshold of yet another important political transition. Much is also being said about other challenges before us—infrastructure, climate change, and financial inclusion, to name a few. We stand here nevertheless with great optimism about our country. In 2015, we deployed a record amount of term loans into critical industries and infrastructure projects. We arranged landmark capital markets financing for a wide range of clients such as Ayala Land, the Aboitiz Group, San Miguel, AES, the Philippine government, Del Monte, and Metro Retail Stores. We thus see 2016 as another year of BPI helping unlock the vast economic potential of the Philippines and the Filipino.

We see this potential every day—in the lives and endeavors of our retail, corporate, and institutional clients. For them, the Philippine dream lives strong. We see their drive to succeed—to uplift themselves financially, to provide for families and communities, and to maximize life's possibilities. We start each day motivated to help our customers pursue their financial aspirations and realize their futures. We strive to be an engine of success for our clients—this is Client Centricity.

#### **Financial Performance**

In 2015, BPI generated a net income of P18.23 billion, up 1.1% from 2014, reinforcing our standing as one of the most profitable Philippine banks. Total comprehensive income was P16.69 billion, down 7.1%. While our securities positions are moderately sized, outflows from the emerging markets nevertheless adversely affected their values. We generated earnings per share of P4.64, incremental book value per share of P1.58, and dividends per share of P1.80. We remain unique among our peers with a steady cadence of dividend payments, a reflection of our commitment to high-quality, recurring earnings, and emphasis on good governance, strength, and stability.

Our net revenues of P59.36 billion reflected an increasing balance between net interest income and non-interest income. We are excited about the performance of our bancassurance, asset management, and leasing businesses, as we further

integrate their fee-generating potential into our core deposit and lending products. Our cost-to-income ratio remained at 53.7%. Our return on assets was 1.3%; return on equity, 12.3%.

BPI's customer count grew by 7% to 7.5 million, not including the 750,000 customers of our micro-finance unit, BPI BankO. Our focus on serving clients led to gains in transaction volumes—total deposits and net loans ended 2015 at P1.28 trillion and P872.86 billion, up 8.5% and 9.1% respectively. This combined performance drove our net interest income higher by 11% to P38.64 billion. We are particularly pleased with the relative stability of our intermediation margins as we grew earning assets, paced by strong volumes across our corporate and retail home, auto, and card businesses. In terms of investment assets managed off balance sheet, we ended the year with P635 billion, up 2.6% for the year. Furthermore, our capital markets business continued to show strong momentum. In 2015, we ranked no. 1 in equity capital market league tables among Philippine banks (Bloomberg) and no. 1 in debt capital markets, raising more than P60 billion and P323 billion in the equity and debt capital markets, respectively, for our clients.

Our balance sheet and asset quality remain strong. We saw NPL ratios hold steady at 1.6% and have no material concerns in our credit portfolio. Nevertheless, we chose prudence and booked provisions of P4.0 billion in 2015, 41.7% above previous year's P2.81 billion. This initiative raised BPI's reserve-

to-90 day NPL ratio to 110.2%, complementing a substantial collateral pool that we already hold against NPLs. In terms of capital, we ended the year with P152.7 billion in total capital, largely comprised of Common Equity Tier 1, after having paid total dividends of P7.1 billion. Our capital adequacy ratio ended the year at 13.6% and our CET1 ratio at 12.7%—well above regulatory minimums, even after taking into account stricter standards for domestic systemically important banks recently implemented by the Bangko Sentral.

	2015	2014	%Change
<b>Income Statement (P Mn)</b>			
Net Revenues	59,359	55,787	6.40%
Operating Expenses	31,870	29,960	6.38%
Pre-Tax Pre-Provision Earnings	27,489	25,827	6.44%
Provisions	3,976	2,807	41.65%
Net Income	18,234	18,039	1.08%
Comprehensive Income	16,693	17,972	-7.12%
Earnings per Share	4.64	4.62	0.43%

Dividends per Share	1.80	1.80	0.00%
Payout Ratio	38.82%	37.36%	
Cost-Income Ratio	53.69%	53.70%	
ROA	1.30%	1.44%	
ROE	12.33%	13.75%	
<b>Balance Sheet (P Bn)</b>			
Total Assets	1,516	1,450	4.56%
Total Deposits	1,276	1,176	8.46%
Net Loans	873	800	9.08%
Total Capital	153	147	4.13%
CAR Ratio	13.59%	14.85%	
CET1 Ratio	12.71%	13.97%	
Investment AUM	635	619	2.58%

At BPI, we focus intently on performance, prudent risk taking, and delivering value to shareholders. All this starts from talent and hard work, the raw material at the heart of our human capital.

We will continue to harness this capital in ways that allow us to better understand our customers and collaborate more effectively as a team. Said another way: our performance will flow from our culture, one that binds BPI to deliver value as we touch each customer. One firm. One BPI. One customer at a time, as we build relationships of trust and partnership that span years, even generations.

#### **Heritage and Culture**

The year 2016 marks BPI's 165th Anniversary. In 1851, we were founded as the Philippines'—and Southeast Asia's—first bank, by mandate of the Spanish sovereign Queen Isabella II. Across this vast expanse of time, Bank of the Philippine Islands served as the country's de facto central bank, issuer of currency, and a major financial repository and lender to international trade, domestic industry, and Filipino individuals. Our history of partnerships includes some of the most noted names in international finance, like J.P. Morgan, DBS, and AIA. Today, we celebrate the emergence of a strong civil society in post-EDSA Philippines, and sustained political and economic reforms. As we look forward with considerable optimism at all the good things we can do for our clients and country, you can expect BPI to strive for success by staying true to the same values that have defined it in the past.

**Clients.** We want our clients to prosper because when they do, we do, too. We are pleased that a record number of customers are choosing to bank with BPI. Equally important is the quality of our relationships with each of them, and we will focus on this as we bank on an ever broader range of their financial needs, throughout their life or development stages.

• **Aboitiz Equity Ventures**, the publicly listed holding and investment firm of the Aboitiz Group, entrusted BPI to execute innovative and timely financial solutions to close major investments in power and infrastructure. In 2015, BPI led a P24-billion retail bond issue for AEV, helping it and its joint venture partner, CRH Plc of Ireland, purchase the Philippine assets of global cement giant Lafarge.

#### **Awards in 2015**

Best Retail Bank, The Asian Banker  
Best Mortgage Product (Housing Loan), The Asian Banker  
Best in Mobile Banking, The Asian Banker  
Best Asset Management Company in the Philippines,  
The Asset Triple A Investor and Fund Management  
Awards  
Best Asset and Fund Manager, Alpha Southeast Asia  
9th Annual Best Financial Institution Awards  
Best Mortgage Lending Bank, Alpha Southeast Asia  
Best SME Bank, Alpha Southeast Asia  
Best Digital Program-Effectiveness in Sales  
(BPIloans.com), Internet and Mobile Marketing  
Association of the Philippines  
Best Electronic Delivery Channel, Bank Marketing  
Association of the Philippines  
Top Bancassurance Business Unit for  
Highest Gross Written Premium and Growth Award,  
Mitsui Sumitomo Insurance



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

- **AES Corp.**, a Fortune 200 company based in Arlington, Virginia, chose BPI to arrange a \$525-million financing to expand a coal power plant in Masinloc, Zambales. The project uses one of the cleanest coal technologies that is 6% more efficient than typical new units installed in the country. BPI earned its lead role by demonstrating expertise in the Philippine energy market, familiarity with the regulatory and banking landscape, and willingness to commit capital.

- Microfinance company **CARD Inc.** received its first P100 million in loans from BPI in 2006. Now, CARD is a P7-billion company with loans from BPI alone exceeding P1 billion. Through CARD, BPI helps build financial inclusion by supporting CARD's mission of providing its 3.3-million client base with loans that start at P5,000.

**People.** Our customers work hard for their money. We want them to know that we do, too. The heritage of our brand will ultimately be fulfilled by our customers' experience with the relevance, timeliness, and purposefulness of our expertise. We will continue to focus on the quality of our human resources, as well as the support and performance management systems that engender the unique culture of competence, cohesion, and integrity that is the hallmark of our unibankers.

- The management of our bank along client-, product-, and infrastructure-focused teams has created significantly better balance among our needs to build relationships, innovate in services, and manage costs. We have demonstrated

a willingness to inject new talent and cross-post at our senior-most levels. We are committed to challenging our best people to unlock our most attractive opportunities—and to serve as role models and “culture carriers” for our next generation.

- Our 2015 **Employee Engagement Survey** achieved a response rate of 93%, much higher than the global participation rate of 83% achieved by Towers Watson, our surveyor. This evidences a highly engaged BPI workforce. The survey further showed that over a span of three years, the bank improved the most in, among others, delivering opportunities for personal growth and development, having a leadership that is effective in managing change, and managing performance and compensation more fairly than our peers.

- We continue to align the interests of our officers with those of our shareholders. In 2015, we completed the third tranche of our **equity-linked compensation program**. All told, approximately 60% of our officers have availed of either our stock purchase or stock option plans, which are unique in our industry in terms of scale and breadth. We believe that long-term value is created by a team that is constantly respectful of downside risk, as well as entrepreneurial in the pursuit of opportunity. Our culture encourages this.

**Shareholders.** We will continue to treat our capital as the precious resource that it is, and work equally to retain the trust of both our majority and minority shareholders. While growth is an important objective in our current economic environment,

we will manage expenses diligently and maintain strong vigilance over operating, market, and credit risk.

Our financial strength is reflected in our **investment grade credit ratings** which, at Baa2/Prime-2 (Moody's, Bank Financial Strength Rating, as of December 2015) and BBB- (Fitch and Capital Intelligence, Long-Term Foreign Currency Ratings, as of December 2015), are the same as that of the Philippine government.

**Country.** Given our long and storied history, we see into our future with an equally long-term view. Our customers and unbankers cannot exist without nurture from their families and the country we call home. As a financial institution, we view it as our responsibility to invest in the future of the Philippines, concentrating on the country's biggest sustainable development challenges. We continue to empower our people to innovate products, services, and systems that address the various needs of Filipinos. We want to be the bank of choice for Filipinos seeking inclusion into our banking system.


- In 2015, our BPI Foundation implemented **BPI Sinag**, a year-long program that sought to incubate and accelerate identified social enterprises. Through mentoring sessions that culminated in a business plan competition, the Foundation, together with the Ateneo Center for Social Entrepreneurship, awarded five social enterprises a total of P1.3 million, credit lines matching the seed funding, a six-month mentorship program, and access to Ateneo's Business Incubation Center.

- BPI recognizes its key role in encouraging investments in alternative and sustainable energy. In partnership with the World Bank's International Finance Corporation, we have actively supported **renewable energy, energy efficiency, and climate finance**. In 2015 BPI facilitated P55.3-billion worth of investments in sustainable energy, an 88% growth from the previous year.

#### **Gratitude**

Please allow us to thank our Board of Directors and 14,647 unbankers for their tremendous contributions to the bank in 2015. We are grateful to our board for their guidance and perspective. You have helped us grow our firm around our customers, our people and our communities, while adhering to the values and multi-disciplinary perspectives that have allowed us to thrive since 1851. We are grateful to our unbankers, for their dedication to clients and to each other, amidst an environment that has been challenging in terms of markets, regulation, and competition. Thank you for your efforts. Because of what you do and how you do it, BPI is a great place to work.

*Yours sincerely,*



**JAIME AUGUSTO ZOBEL DE AYALA**

*Chairman*



**CEZAR P. CONSING**

*President & Chief Executive Officer*