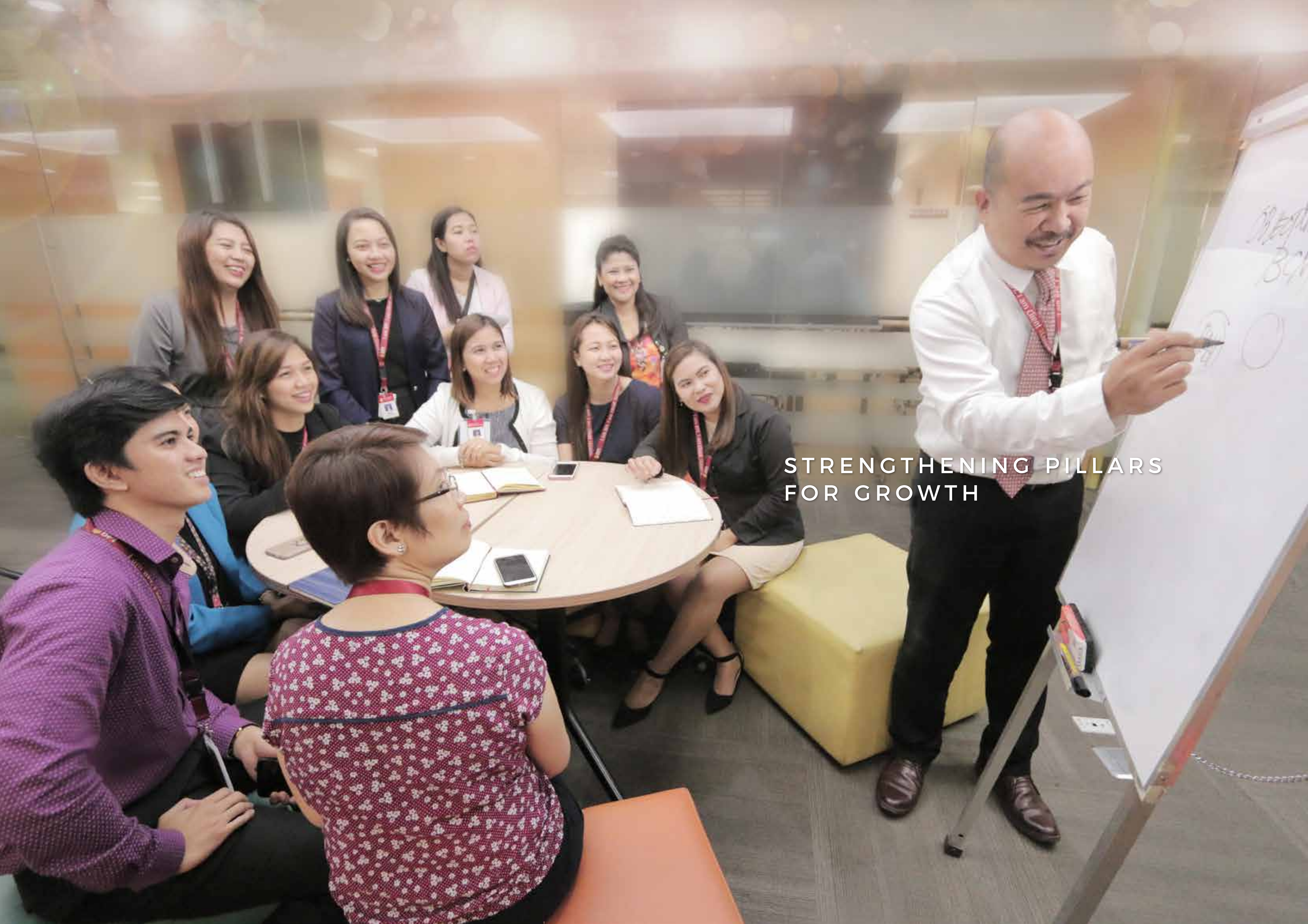
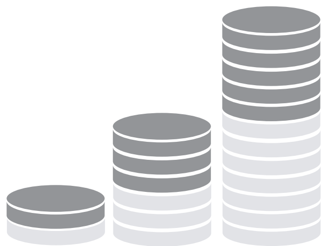


STRENGTHENING PILLARS FOR GROWTH

Market Outlook

To build a robust business strategy that will ensure current and future success.

Economic Growth



In 2017, the Philippine economy grew by 6.7%, one of the fastest in Asia. In the fourth quarter, the best performing sectors were industry (+7.3%) and services (+6.8%). The government is also boosting infrastructure spending through the "Build, Build, Build" program, which includes high-impact flagship projects.

According to a World Bank report, "expansionary fiscal policy has boosted capital formation, while robust remittances, credit growth, and low inflation have supported private consumption." Real GDP growth is expected to increase by 6.9% and 6.8% in 2018 and 2019, respectively.

Opportunities in MSME Sector

Even though 35% of GDP, 65% of the workforce, and 99.6% of all businesses in the Philippines is accounted for by MSMEs, the sector faces impediments to growth, such as lack of technical capacity, access to markets, and access to finance.

The government recognizes MSME development as a critical economic priority, promising to allocate billions annually for MSME lending to reduce their reliance on informal lenders. Government financial institutions have also been directed to develop new financing options for MSMEs. For its part, private financial institutions are encouraged to provide tailor-fit mid-term solutions to address persistent challenges faced by MSMEs.

Consumer Lending

As of December 31, 2017, only 2.5% or 195,688 of BPI's retail depositors have availed of the Bank's loan products. In the coming years, the Bank expects stronger growth in the consumer lending market due to the stable growth of the Philippine economy and the passage of the Tax Reform for Acceleration and Inclusion (TRAIN) Law. The recently enacted law effectively reduced personal income tax rates and is expected to result in higher disposable incomes for Filipino taxpayers.

The Philippines is rich with a young and growing population and a flourishing services sector. However, this is only a brief window of opportunity and requires commitment to reforms that facilitate private investment and skills enhancement. Financial institutions that wish to accelerate the growth and benefit from these trends should provide financial literacy and customized products for target segments.

Technological Penetration

In 2017, the Philippines had 50.77 million internet users and 30.4 million smartphone users. By 2022, the numbers are expected to increase to 57.84 million and 46.04 million, respectively.

Aside from the convenience it provides our customers, mobile and internet banking also significantly reduce transaction costs and time allocated for banking. Hence, we diligently invest in different forms of mobile and digital technologies to cater to the evolving needs of our clients.

Rise in Provincial Centers

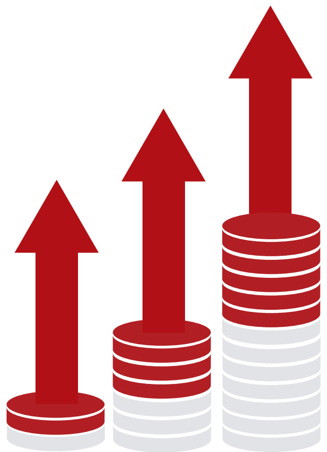
Gross Regional Domestic Product (GRDP) outside Metro Manila has mostly been increasing since 2014. Using constant 2000 prices, this upsurge is led by Eastern Visayas (+12.4%), Central Luzon (+9.5%), Davao Region (+9.4%), and Central Visayas (+8.8%). While the country continues to post robust growth, poverty is present and inequality remains across the regions.

The government is committed to addressing these problems by redirecting investor focus outside Metro Manila, particularly the underdeveloped regions in Visayas and Mindanao. Through additional government funding and support, the Visayas is expected to achieve a GRDP between 7.7-8.3%, an average growth rate higher than the targeted national GDP for 2017-2022.

This anticipated accelerated growth outside of the Philippine capital demands an extensive and inclusive financial delivery infrastructure that is able to adequately serve previously neglected segments due to geographic and economic constraints.

Strategy and Performance

Our strategy is formulated based on our analysis of the competitive environment and market outlook to ensure we gain from the opportunities while we manage the risks. Each year, we take stock of our performance against strategy and continually evaluate, adapt, and improve.



Accelerate Asset Growth

We intend to capitalize on the Philippines' stable economic growth by further investing in our already significant corporate and retail banking franchises. This puts us in a better position to tap opportunities in the growing market of middle-class Filipinos, the thriving SMEs, and underbanked areas in the microfinance segments. We are positioning ourselves well in attracting investments from domestic and offshore investors.

Build the MSME Business

We recognize the importance of Micro, Small, and Medium Enterprises (MSMEs) as growth engines in the country.

In 2017, we laid down the building blocks for our Business Banking group which will sharpen our focus on the unique financial needs of our SME clients. Business Banking will be launched in January 2018.

We also repositioned our microfinancing business through BPI Direct BanKo, from a mobile-based business model to a more traditional in-person business approach that focuses on the self-employed microentrepreneurs (SEMEs).

Performance: We have built the credit model for Business Banking, designated key people, and customized products fit for the segment. From 9 pilot branches in 2016, we expanded to 103 BanKo branches and microbanking offices in 2017. We have set our sights on further increasing the geographic reach of BanKo in the microfinance segment.

Renewed Focus on Consumer Lending

Recognizing that the Philippine economy is consumption-driven, we overhauled our consumer loan processes in 2017 to improve turnaround times for auto and housing loans. Going into 2018, we are now well-positioned in capturing a bigger share in the quickly growing consumer loan segment. Believing there is further growth potential in consumer lending, the Bank is set on increasing our share in the unsecured lending market for credit cards. We implemented smart analytics to enhance origination, credit scoring, and fraud detection.

Performance: The impact of the process improvements for the auto and housing loans is expected to be realized in 2018.

In 2017, the credit card loan portfolio grew by 20.7% versus the previous year.

Fortify Digital Infrastructure

We recognize the importance of building strong capabilities by rapidly increasing client access points in both digital distribution platforms, as well as improving productivity, automation and cost-efficiency in our back office.

Performance: For the past three years, the total number of unique users of the BPI Mobile App has steadily increased, growing 28% just for 2017. We will continually provide quality service to our growing number of clients who access us digitally. In 2017, the uptime rates for our mobile banking, express phone and ELink/BizLink reached 99.5%, 100% and 99.43%, respectively.

Enhance Deposit Franchise and Delivery Infrastructure

An extensive branch network is a key driver of new account openings and cross-selling efforts of the Bank. As such, we will continue expanding our branch network, not only in Metro Manila, but extending to key provincial cities that show potential for consumer spending and infrastructure investments.

To increase deposits in the corporate and SME business banking segments, we aim to present BPI as a one-stop shop that provides integrated products and services to our Clients, such as cash management, payroll, government and supplier payment services, as well as bancassurance, asset management, securities investments, credit facilities, payments and remittances, and foreign exchange products and services.

Performance: We have opened 111 more BPI, BPI Family Savings Bank, and BanKo branches and MBOs in 2017 alone, a 13% increase from last year. Total number of clients in both retail and corporate segments are now at 8.5 million, a 6.6% growth.

Risk Management

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Risk Description	Potential Impact	Current key risks, issues or areas of uncertainty	Management and Mitigation	Risk Exposure
Credit Risk & Asset Quality Risk of loss due to a borrower's non-payment of a loan or other credit accomodations (either the principal or interest, or both)	1) Decrease in the Bank's profitability due to an increase in loan losses and non-performing loans 2) Deterioration of the quality of the Bank's assets 3) Consequences from non-compliance to regulatory changes	1) Increase in the demand for SME loans and microfinance 2) Growth of the middle class 3) Effectivity of Philippine Financial Reporting Standard (PFRS) 9 which includes impairment of financial assets 4) Regulations on Sound Credit Risk Management, Related Party Transactions, and Conduct of Stress Testing Exercises	Comprehensive set of Credit Risk management policies and standard procedures covering : 1) Assessment of borrowing clients using credit risk rating models and credit risk scorecards 2) Evaluation and acceptance of collaterals 3) Credit evaluation and approval 4) Regular review of appropriateness of classifications and impairment rates of classified loan accounts 5) Remedial management 6) Regular review of credit process implementation and documentation 7) Conduct of stress tests on the Bank's loan portfolio	Moderate, but Mitigated
Market & Liquidity Risk Risk of loss due to the volatility of interest rates, foreign exchange rates or equity prices & risk that the Bank will be unable to meet a financial obligation to a customer or market in any location, in any currency at any time	1) Decline in earnings 2) Deterioration of the quality of the Bank's liquid assets; increased funding needs 3) Consequences from non-compliance to regulatory changes	1) Passage of the Tax Reform for Acceleration and Inclusion (TRAIN) law 2) Depreciation of the Peso against the US Dollar 3) Regulations on Liquidity Risk Management and Conduct of Stress Testing Exercises	Comprehensive set of Market & Liquidity Risk management policies and standard procedures covering : 1) Measurement and monitoring of market risk exposures of trading and non-trading portfolios 2) Maintenance of adequate liquidity levels at all times 3) Establishment of a contingency funding plan 4) Conduct of stress tests 5) Enhancement of risk models and systems	Moderate, but Mitigated
Operational & Information Technology Risk Risk of loss due to inadequate or failed internal processes, people, and systems and risk of adverse outcome due to the use of or reliance on IT	1) Increase in operational losses 2) Disruptions in daily operations 3) Unauthorized access to the Bank's information assets 4) Inaccurate, incomplete, inconsistent, and/or unavailable information 5) Damage to the Bank's physical assets 6) Damage to the Bank's brand and reputation 7) Legal liabilities and tax implications 8) Consequences from non-compliance to regulatory changes	1) Advancement of digital technology 2) Increase in technology, information security/cybersecurity, and data privacy risks 3) Increase in the population of mobile/smart phone users and internet users and the corresponding demand for accessible and convenient financial platforms 4) Increase in the demand for financial services in retail and trade 5) Increase in geographic dispersion of demand for financial services 6) Regulations on Operational and IT Risk Management, Business Continuity Management, Information Security Management, Social Media Risk Management, and Conduct of Stress Testing Exercises	Comprehensive set of Operational & IT Risk management policies and standard procedures covering : 1) Identification, assessment, control / mitigation, monitoring, and reporting of operational and IT risks 2) Risk management processes are embedded in business activity processes (e.g. product development and process enhancements) 3) Development and monitoring of Key Risk Indicators (KRIs) 4) Loss event management process 5) Establishment of systems and programs on business continuity management, information security/cybersecurity management, vendor management, and physical security management 6) Conduct of operational & IT risk management awareness and appreciation initiatives	Moderate, but Mitigated
Business & Strategic Risks Risk to earnings or capital, current and prospective, arising from adverse business decisions or strategy, improper implementation of decisions, lack of responsiveness to industry changes, and/or incorrect assessment of changes in business.	1) Decline in earnings 2) Increase in operational losses 3) Damage to the Bank's brand and reputation	1) Changes in economic and industry conditions 2) Competition and pricing 3) Regulatory developments such as Implementation of the National Retail Payment System and passage of the Tax Reform for Acceleration and Inclusion (TRAIN) law	1) Close monitoring of financial and operational performance, strategies and policies 2) Development and monitoring of key risk indicators 3) Reporting to Senior Management and Board	Moderate, but Mitigated