



PRESIDENT'S REPORT

MARCH 2019

Dear Fellow Stockholders,

Welcome to the 62nd Stockholders' Meeting of Bangko Kabayan Inc. (A Private Development Bank).

FINANCIAL HIGHLIGHTS

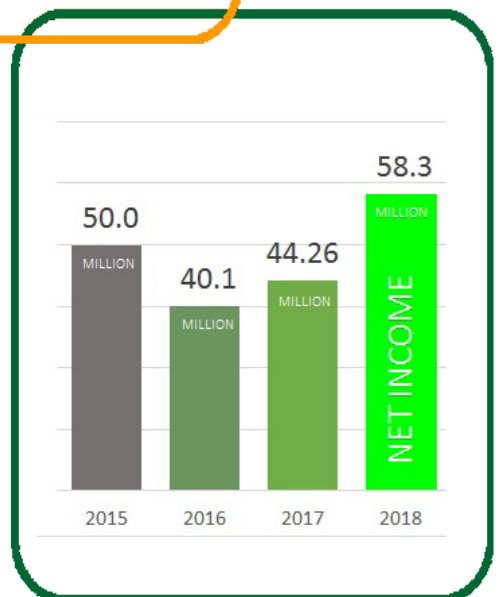
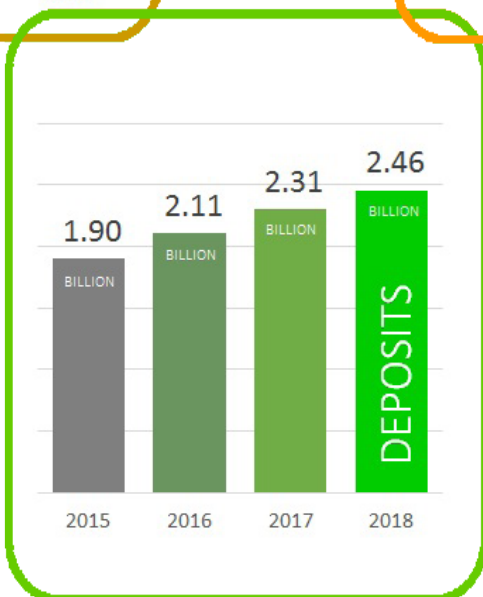
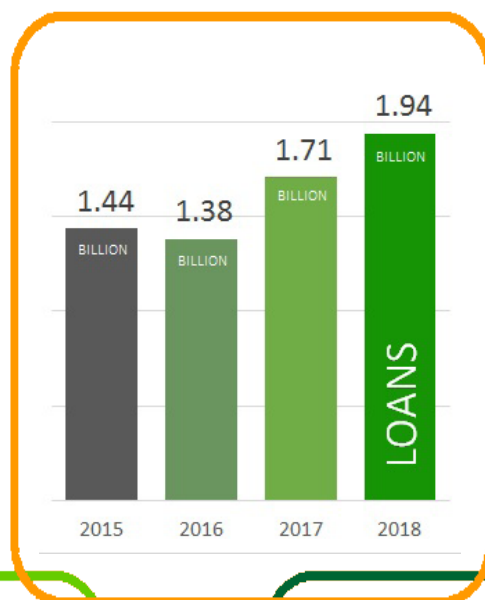
As of December 31, 2018, Bangko Kabayan crossed over another billion mark, registering P3.1B in total assets, an increase of P237M or 8.31% - more than double of the previous year's 4.14% growth rate.

Deposit liabilities also continued to exhibit growth in levels and with the boost from the HATAW NA program, ended at P152.33M, a modest 6.61% growth from the previous year's level. Likewise the bank's deposit mix continuously improved in favor of low cost deposits, giving BK its advantage in cost of funds and allowing it to offer competitive loan rates to its customers.

The bank's total loan portfolio reached its highest level yet at P1.90B as of December 31, 2018. This represented a 12.44% increase from 2017. Loans to MSME had a 24% combined share on the total increase, proof of the bank's continuing commitment and focus on MSME enterprise lending.

Despite the increase in loans, the quality of the portfolio further improved from 2017's 2.63% past due to 2.16% as of year-end 2018. Meantime, gain from sale of ROPA maintained its average share of 7% of total gross income in the last 5 years.

The growth in loans, the lowering of the cost of funds and the continuing increase in deposits and the ROPA sales maintaining good margins - all contributed to BK's achieving a net income of over P58 Million which resulted in the growth of equity by P19M compared to previous year.



OPERATIONAL & ORGANIZATIONAL HIGHLIGHTS

BK Lobo MF-OBO conversion to Branch Lite

In last year's stockholders' meeting we announced the opening of our 24th branch in the town of Lobo.

In response to the mandate of the Bangko Sentral ng Pilipinas to offer a wider range of quality financial services to the grassroots for greater financial inclusion, we upgraded its status to Branch-lite. This allowed us to offer more products and services while retaining lower costs by continuing our great partnership with Palawan Express Padala for cash transactions.



New Products

In order to provide funding for additional working capital or asset acquisition of micro-enterprises and newly acquired small enterprises, we introduced KABAYAN MSE with a loanable amount of P50,000 to P500,000. We received over 60 availments in the first 5 months resulting to an additional P22 Million in our loan portfolio.

To generate more funds to support our growing loan activities, we also offered special interest rates for our depositors through the introduction of HATAW NA. For a minimum placement of P50,000 with a term of at least 90 days, we offered an interest rate of 2% to 3%. We received an overwhelming response resulting to almost 300 new accounts with a combined amount of over P110 Million.

Partnership with True Money

As we continue to explore better means of delivering low-cost financial services, we were also accredited as a Master Agent of True Money, a leading international financial technology brand that creates opportunities for Filipinos to have better lives. Through this new platform, we are able to offer bills payment, remittances and prepaid loads to our customers. To date, this has been rolled out in 10 of our branches with a combined total of 750 transactions amounting to over 2 million pesos last year.



Continuous Improvement

Bangko Kabayan presently employs 365 individuals. With our continued growth and the strong call for data privacy, we thought it best to invest in a Human Resource Information System that would allow us to ensure integrity and confidentiality of data while reducing time in payroll processing and report generation. The HRIS provides us with a centralized repository of employee data and promotes paperless transactions between and among our staff.

In the area of staff professionalism, we had a total of 22 graduates from last year's Leadership and Management Training Program, 5 of whom have been appointed to management positions. This brings the total number of our management trainees to 115 or 33% of our current employee count.

We also have 4 employees who graduated from the Expanded Tertiary Education Equivalency and Accreditation program. They were hired as high school graduates but decided to pursue further studies while working and are now proud holders of a college degree.

COMMUNITY INVOLVEMENT

Commitment to Community Development is one of Bangko Kabayan's core values. Taking this true to heart, our employees rolled out 18 Bayani ng Komunidad projects through Bangko Kabayan Foundation Inc (BKFI). Some notable projects include the building of a proper walkway for students who live near the lake, the installation of solar lights in a dark barangay alley to help prevent crimes and the construction of toilet and washing facilities for public school students – all using eco-friendly bricks gathered from the different branches.

BKFI also conducted two Entrep Eskwela courses last year benefitting 26 small business owners and 13 farmers through the delivery of a course in good entrepreneurship in Candelaria's farm business school.

Our foundation president Mrs. Tess Ganzon and executive director Ms. Gaye Gonzalvo also served as trainers in Ateneo's Leadership and Social Entrepreneurship course for OFWs in Hongkong and Macau, China.

And to give back at the end of another successful year, all our 24 branches conducted Christmas outreach activities in various locations last year. The variety of activities allowed us to reach out to different sectors of society such as indigent residents, retired Kapitan members, traffic aides, barangay tanods and single mothers.

The combined activities of the foundation last year directly benefited a total of 25,307 individuals in the communities we serve.



Building of proper walkway for students who live near Taal Lake.



Construction of washing facilities for public school students.

ENTRY OF A NEW INVESTOR - PARTNER

We come to the most exciting part of this year's President's Report.

Last February 6, the majority shareholders signed an agreement with representatives of City Savings Bank and Union Properties, both wholly-owned subsidiaries of the Union Bank and the Aboitiz Group of Companies, signaling the entry of these parties as the major investors in Bangko Kabayan, Inc.

This was the fruit of over a year's negotiations from the time the group expressed interest in investing in the bank last January 2018. They were particularly attracted to our microfinance and small enterprise portfolio as well as to the brand equity and organization existing in BK today.

As for us, we realized that the entry of big banks into the countryside arena required digital technology if we were to compete toe-to-toe with them, even in the field of microfinance. Not only that – but to propel BK to an expansion which would cover at least major parts of Luzon – and even dream of one day having Bangko Kabayan known nationwide because of our expanded reach – was only possible through aligning ourselves with bigger entities such as City Savings / Union Bank.

As mentioned, it was a process that took over a year because we wanted to get to know them better, especially about their commitment to the welfare of our managers and employees as well as our clients, of course. We found that there was a significant alignment in vision and values between BK and

CSB. The parent bank (Union Bank) is the leader in the digital transformation efforts of the banking industry. And there was a desire to make BK their platform for the microfinance market.


Because of these main reasons, we accepted their entry as BK's next majority investor, pending the approval of the BSP of this partnership.

We are excited about this as they have committed to retain the brand of Bangko Kabayan, something we all worked hard to build over the past 40 years since our family took over the management of the bank. There is also a commitment that no one will be laid off – and in fact, more people will need to be hired for the coming aggressive expansion.

With this development, we look forward to a better, brighter future for Bangko Kabayan!

As always, we give thanks for the guidance of the Almighty in having charted the way through the challenges and changes happening in the banking industry such that BK has remained steadfast in its growth and progress despite all these.

Maraming salamat po sa inyong lahat!


Atty. Francis S. Ganzon
President