



PRESIDENT'S REPORT

March 20, 2022

Dear Fellow Stockholders,

It is with great pleasure and privilege that I welcome all of you to the 65th Stockholders' Meeting of our Bangko Kabayan Inc. (A Private Development Bank).

2021 was still a very challenging year for all of us, as we faced more surges of infection brought about by the new Covid variants and other weather-related incidents during the year. However, with the continuous vaccination roll out and easing lockdown restrictions, our economy showed signs of improvement and the people gradually adapted to an essentially new normal way of living, working and doing business. As we continue to confront the challenges, particularly the recent Russia-Ukraine conflict impacting on oil prices, resulting in higher inflation, supply chain disruptions and higher cost of money, we remain dedicated to our commitment to be of excellent and responsive service especially to our Micro, small and medium enterprises.

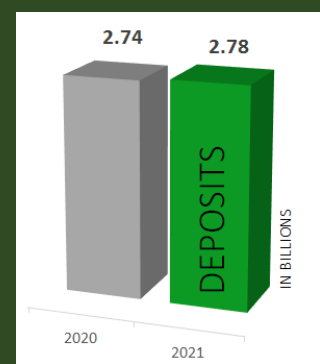
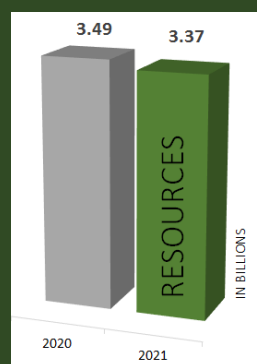
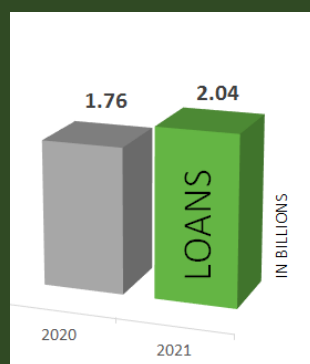
Financial Highlights

BK was able to harness the resiliency, hard work, and dedication of our people and customers as we achieved a record high of 2.04B in loan portfolio, up by 16% from the prior year. As we are hopefully on our way to economic recovery, 76% of the growth was generated from our Regular loans and 24% from our Inclusive Finance.

While there was a drop in our resources due to the dividend distribution, this was offset by the shift from low-yielding liquid assets to high-yielding loans.

Deposit liabilities ended at 2.78B and posted some growth of 1.31% from the previous year while maintaining our mix of 80%-20%, favoring the low-cost deposit. And this translated to a cost of deposit of 0.77%, lower than the previous year's 0.90%.

As we strengthened the collection efforts and with the gradual economic recovery, Non-performing loans (NPL) of the bank decreased by P57.6M, thus NPL ratio remarkably improved from a high of 6.42% in 2020 down to 2.70%. This is way below the NPL ratio of the industry at 7.74%.

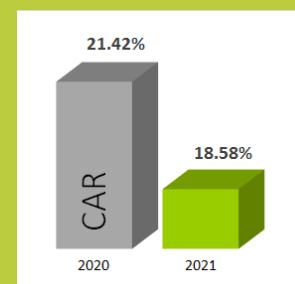
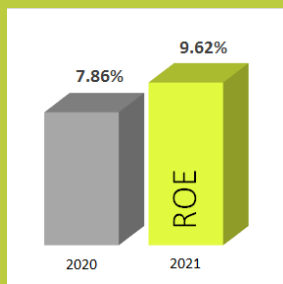
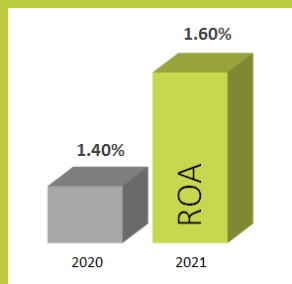
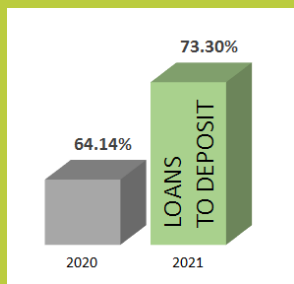
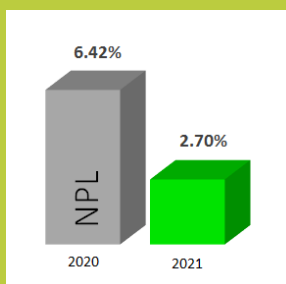
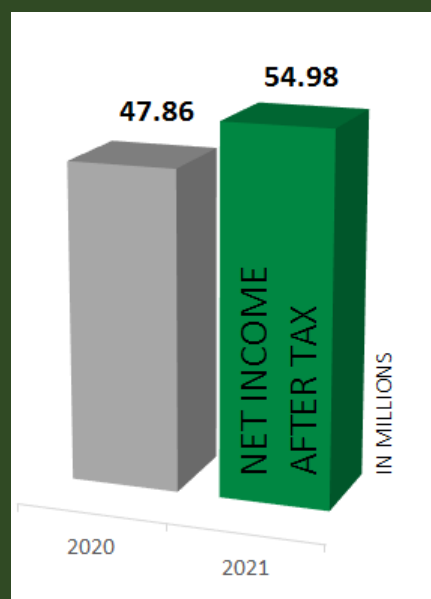


2022

Due to these significant improvements in our delinquent loan portfolio, there were no additional loan loss provisions recognized for the year.

The bank generated a Net Income After Tax of 54.98M, higher by 15% from the previous year, despite net interest income dropping by 3.7% or equivalent to 11M due to the lower overall yield on loans. The lower loan yields came as a result of the shift in the portfolio mix. ADB of lower-yielding secured regular loans went up by P192M, while high yielding inclusive-finance loans dropped by P27.8M. This resulted in a mix of 84%-16% from the previous year's 81%-19%.

With the higher NIAT and the distribution of substantial cash dividends, we were able to achieve an ROE of 9.62% from a low of 7.86% last year. CAR is also above the regulatory requirement at 18.58%.



New Products



True to our commitment of becoming the preferred financial institution of MSMEs in the countryside, the bank has been finding ways to deliver relevant products and services to increase our market reach.

In 2021, we introduced three new loan products – the Home Improvement Loan (HIL), Business Builder Loan (BBL) and the ADB Depositors Privilege Loan (ADB DPL). The HIL aims to provide individuals fund for their home renovation projects. BBL on the other hand aims to provide businessmen access to credit to acquire assets for their business, while the ADB DPL is offered to existing loyal depositors to finance their personal or business needs.

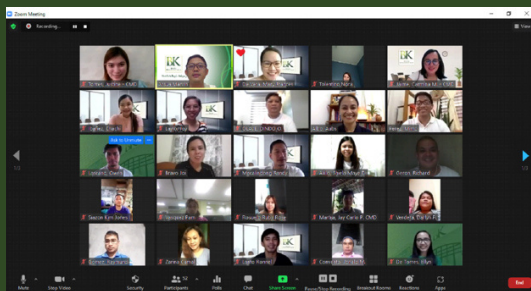
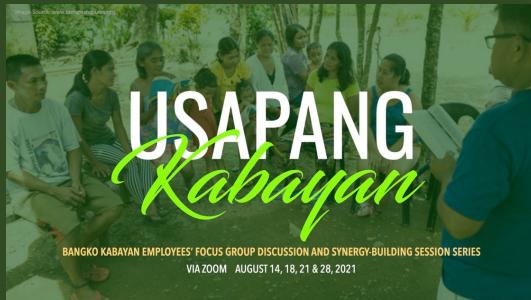
After the introduction and pilot launch of these products, the bank generated 107 loan availments and all together, these three brought in an additional loans of P24.43 million in just five (5) months, while on a pilot basis.

New Service / Channels

In line with the BSP's digital transformation thrust, which aims for greater financial inclusion and the emerging consumer behavior shift towards e-commerce and virtual payments and transfers, BK is finding ways to align with these developments. Today, BK is now a merchant biller of GCash and UBP and was recently on-boarded with PayMaya. These additional channels offer clients a convenient way of paying their dues using only their mobile phones, without the need to visit any BK branches.

We've also successfully launched our membership with PESONET in Q1 of 2021, which provides our clients an easy and convenient way of transferring their funds from other PESONET member banks to their BK accounts.

As we continue to explore better means of delivering financial services, we are also now a clearing subscriber of Philippine Clearing House Corporation (PCHC); thus, our checks are directly cleared with them. Through this service, our clients can enjoy a shorter clearing cycle and faster crediting to their accounts, as well as extended clearing cut-off time in depositing their checks with BK. Being a PESONET and PCHC member is also a good avenue to increase our client base as well as generate additional deposits.



Process Streamlining

As we continue our journey towards a digital shift, BK, together with its system provider INFOPRO, are currently in the process of migrating the existing core banking software to the cloud, which will likewise enable an API-ready system. We are looking forward to its target implementation by Q2 of 2022. With an API-ready system, more flexibility can be expected, and we can easily onboard different digital systems such as Loan Originating System, remittance platforms, and others.

BK is vigorously searching for the most appropriate digital Loan Origination System (LOS) and exploring those that are available with our parent and CSB for faster implementation. At the same time, we are working with various providers in developing alternative credit scoring that will be integrated into the said LOS. With an LOS, the turnaround time of loan processing will be improved, while the credit scoring will allow a faster way of determining the creditworthiness of the client in a more dynamic and efficient manner.

Organizational Development

With the challenges encountered by everyone brought about by the pandemic and the changes in the business landscape, management initiated a focus group discussions (FGD) with our employees entitled Usapang Kabayan: A Synergy-Building Session to hear everyone's views on the bank's current situation and its future plans. The FGD revealed three main points: (1) The common challenges faced by BK's employees; (2) Employees love Bangko Kabayan; and (3) Bangko Kabayan loves its employees.

It is undeniable that the bank's biggest investment remains to be its human resource. We recognize the importance of an engaged workforce while ensuring that the individual goals of our growing number of employees (today numbering 372) are aligned with the bank's strategies and goals.

BEST MSME GROWTH BANK IN THE PHILIPPINES

BK was recognized as Best MSME Growth Bank in the Philippines by Capital Finance International (CFI.co), a London-based print journal and online resource reporting on business, economics and finance, and which honors individuals and organizations that significantly add value to their stakeholders.

This award is Bangko Kabayan's first international award in this category, a significant addition to our long list of awards over the last two decades. Furthermore, it is a strong affirmation of BK's unwavering commitment to meeting the needs of our local community.



Merger Updates



Towards the latter part of 2021, Management as well as you, our shareholders, approved the proposed plan of merger of Progressive Bank, Inc. (PBI) and First Agro-Industrial Rural Bank, Inc. (Fairbank) with Bangko Kabayan Inc. (BK).

It is envisioned that the merger of these banks will provide an opportunity for Bangko Kabayan to expand its market reach in catering to MSME's and the unbanked sectors of our economy particularly the Luzon and Visayan regions.

Since then, the Merger Oversight Group (MOG) – led by the BK team, with representatives from PBI and FB – was created to facilitate the functional merger and to align processes and policies of the banks preparatory to the actual merger. Culture building programs are underway to ensure key values are shared in the whole organization.

Sales and credit officers of FB and PBI are being trained through BK's way of doing business. Product and process alignments are also on-going.

The merger application is still going thru the approval process with both Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC). Once approved, the application will then be submitted to Securities and Exchange Commission (SEC) for their further approval. The Philippine Competition Commission has also been informed about the merger. The legal merger is expected to happen earliest in June 2022.

Corporate Social Responsibility

As Bangko Kabayan's corporate social arm, the Bangko Kabayan Foundation Inc. (BKFI) continued its program to support the development of micro-entrepreneurs and their community.

For the year 2021, BKFI rolled out 26 Bayani ng Komunidad projects for almost 58,043 beneficiaries. Some notable projects include the building of a proper walkway for those who live near the lake; the installation of solar lights in a dark barangay alley to help prevent crimes, the construction of washing facilities for evacuation centers and the building of watershed and water tank for the preservation of spring water – all using eco-friendly bricks gathered from the different branches and departments.

BKFI also adapted the community pantry project to extend help to jeepney drivers, person with disability (PWDs), and senior citizens who had to temporarily stop working, while some eventually lost their jobs due to the pandemic.

BKFI also sponsored the second run of B.E.S.T (Bangon Entrepreneurs at Sumabay sa Tagumpay), a 3-day online capacity program facilitated by the Bayan Academy. It was participated by 46 micro-entrepreneurs. The program aimed to make the entrepreneurs adapt to the new business landscape brought about by the pandemic.

BKFI also provided relief goods to people who were significantly affected by typhoon Odette covering the various municipalities of Western, Eastern, and Central Visayas through FairBank and Progressive Bank.

BKFI was recognized in the First X-Trash Challenge, a solid waste collection activity in partnership with Philippine Business for Social Progress (PBSP) and Basic Environmental Systems and Technologies, Inc. (BEST). BKFI was able to collect 257.58 kilos of trash that will be converted into environment points to help an adopted community endorsed by Samahan ng Nagkakaisang Pamilya ng Pantawid (SNPP). This kind of recognition inspires us more to fulfill our commitment to community development by starting our excellent service thru the help of our partners in advancing the culture of sharing even through trash items that are not usually valued by people.



Future Directions

Moving forward and in line with the Bank's theme on this year's Sales Kick Off "Rev UP," BK will actively push its strategic directions towards digital transformation, process improvement, and organizational development and with it, we will all be accelerating towards continued BK's success.

Maraming salamat po sa inyong lahat!

Beatriz B. Romulo
President / CEO

