

March 19, 2023

President's REPORT



Dear Fellow Stockholders,

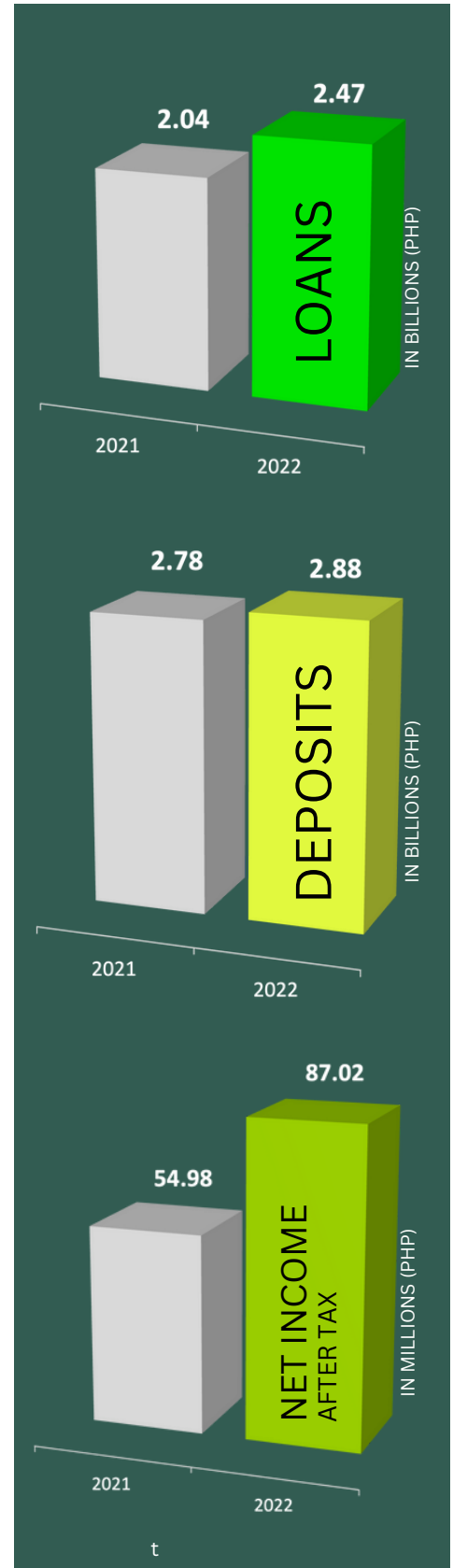
Welcome to the 66th Stockholders' Meeting of Bangko Kabayan Inc. (A Private Development Bank).

Bangko Kabayan remains resilient and shows its strong growth momentum for 2022 despite the economic pressures and challenges such as rising inflation, the war in Ukraine, and unstable interest rates. The resiliency and the growth were driven by the commitment of your Bank and its team to deliver relevant financial services and support our MSME clients as we all cope with a still very difficult post-pandemic environment in the country.

Financial Highlights

With the easing of Covid-19 restrictions and as the economy moves towards its continuous reopening, Bangko Kabayan was able to grow its loan portfolio by 21.23% to Php 2.47B in 2022. The 78% of the growth was driven by Regular loans and 22% by Inclusive Finance.

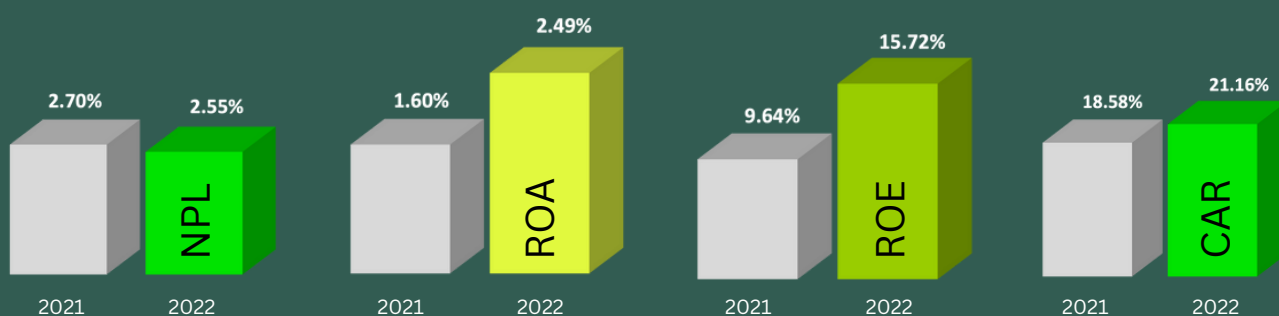
Deposit wise, it ended at Php 2.88B with a growth of 3.61% from the previous year. With the time deposit drive launched by the bank, its CASA- Hi cost deposits ratio remains at a strong 75-25%. As we align with the increasing interest rates to compete with the market, our cost of deposit increased slightly to 0.83% from 0.77% in 2021, a very small increase compared to the Bangko Sentral ng Pilipinas' (BSP) 3.5% hike of its own interest rates.



As the loan portfolio grew, a modest improvement in the NPL ratio of 2.55% was reported from 2.70% in the previous year. Additional provisions of Php 21.88M were recognized in 2022 bringing the NPL coverage to 64.85% coming from 61.58% in 2021.

Despite the additional provisions, Net Income After Tax (NIAT) jumped by 58.27% to Php 87.02M for the year. With a substantial increase in the loan portfolio of Php 432M and an increase in its yield by 1.23%, net interest income grew by 28% to Php 372M and the total revenue grew by 31% outpacing the 15% growth of operating and administrative costs.

With the higher NIAT, profitability ratios such as Return on Assets (ROA) and Return on Equity (ROE) follow from 1.60% and 9.64% to 2.49% and 15.72% respectively. Moreover, BK's CAR is high at 21.16% which is way above the regulatory limit of 10%.



Operational Highlights

To support the loan portfolio growth, BK developed various Inclusive Finance loan products which were designed to expand our loan product offerings. With enhanced product features, Kabayan MSE Plus, Business Builder Loan, and Gabay Housing loans are now part of the bank's core products. Kabayan MSE Plus aims to finance additional working capital for a higher amount with a maximum of Php 1.5M with better terms and conditions while Business Builder Loan offers a lower loan amount with a maximum of Php 150K.



Kabayan MSE



Business Builder Loan



Gabay Housing Loan

The long-standing Gabay Housing product was likewise enhanced to include a home improvement feature. These products were warmly received by the market as the bank booked an additional new loans of Php 87M.



Last December, Bangko Kabayan signed a Memorandum of Agreement with ECPay, one of the country's leaders in electronic payments to be one of its merchant billers. Through their ECBills facility, BK's clients can conveniently pay their dues by going to any 7-11 stores or ECPay partner outlets nationwide. This will be added to the bank's list of partner channels like Gcash, Maya, and UBP. Target onboarding with ECPay is by 1st quarter of 2023.

As we move towards digitalization, one of the major projects that were completed and implemented by the bank was the migration of the existing core banking software to the cloud which provides better scalability and an API-ready system giving the bank more flexibility to onboard digital solutions. This is the initial phase of the bank's strategy to look for digital systems that will transform some of the bank's manual processes into automated ones, as well as onboard customers efficiently. BK also embarked on upgrading its IT infrastructure which includes upgrading to a higher version of Operating System as well as ensuring its hardware compatibility which also requires a replacement of the old hardware to meet the requirements of a higher Operating System. This upgrade provides improved security features that will lower security vulnerabilities and prevent cyberattacks. A collaboration tool was also launched in the form of "Google Workspace" which enables the bank to securely access their accounts anytime and anywhere and at the same time provides a secured platform for video conferencing, instant messaging, and other collaboration tools.

In the future, this will enable BK to interface with various software applications which can help our customers connect digitally and help them participate in e-commerce more efficiently.



Development of Workforce

In line with our mission to grow the bank as a value-driven organization committing itself to its core values of belief in Divine Providence, integrity, service excellence, unity, and commitment to community development (BISUC), the management came up with a Culture Development Program. This is a culture-driven initiative to enhance personal effectiveness and team synergy among BK personnel in their respective departments and branches and to have the most meaningful and most rewarding learning experience. This two-day seminar-workshop contains the combined elements of spiritual retreat, values formation, and team building to strengthen the BK's Culture of Sharing.



There is also a growing awareness on the value of health and wellness as necessary to the holistic development of our people. BK had a series of wellness talk sessions discussing and promoting financial management wellness, understanding stress, and burnout, psychological first aid, diet, and nutrition.



Talent Development Academy (TDA) was also approved as a flagship project of the Human Resource Department. It aims to standardize and upgrade the training processes that will further assess and validate the learning acquisition of new, promoted, and transferred employees in accordance with the standards and policies of Bangko Kabayan. As part of the holistic approach, TDA training programs will cover the major areas of the bank's business functions including (1) Sales & Marketing (2) Operations (3) Back Office Support (4) Leadership & Management. The target implementation is by 1st quarter of 2023.

As we continue to invest in the development of our employees, Bangko Kabayan presently employs 403 individuals, with 29% (117) of the workforce completing the Leadership and Management Training Program (LMTP). 93% (109) of the graduates have been promoted and are now occupying middle management positions.

Merger Updates

The merger of the three banks is geared towards the adoption of one culture, one set of processes, alignment of systems and technology, enhanced products and services for MSMEs, and building a stronger financial service and reach in rural areas.

Different working groups composed of members from BK, PBI & FB were organized to cover different aspects of the merger, i.e., People, Products and Processes, Sales, Finance, Legal and Compliance, and Technology. These working groups were also tasked to discuss and identify policies or processes which can be aligned, and other plans and activities to ensure smooth integration once the approval for the merger is obtained from the proper regulatory agencies.

Both Sales and Credit workstreams have implemented a Learning Partner Program wherein BK Credit Analysts and Branch Managers mentor a counterpart in the two banks as a way of supplementing the training programs that have been rolled out in the past year. This has allowed frontliners of PBI and FB to improve their prospecting, and credit people to improve their analysis, especially of complex SME accounts. As they do this, both banks continue to align their practices within the credit process with BK's standards and policies.



The finance workstream continues to oversee financial performance, with particular attention to liquidity issues of both banks and has been working with credit and UBP to improve ECL models of PBI and FB.

Product parameters, pricing, and processes are generally aligned already with BK's, except for some items that cannot be changed due to system limitations.

For the Tech workstream, a new TO for the IT Services Group patterned after City Savings Bank (CSB) has been proposed and approved by BK's board, which already takes into consideration priority projects for the merger and the programs under the merged bank's strategies moving forward. BK tech team has also been working with the developers of PBI and FB for ongoing projects such as Audit Issue Monitoring System (AIMS), BSP reporting via API, and Core Banking System (CBS) migration.

People workstream is currently working on the alignment of performance appraisal parameters, with a focus on the 2 banks' sales force (i.e. branch managers) who bring in the volume and accounts for SME and IF. This should complement the efforts of sales and credit on mentoring as well as the continuous drive to book SME and IF loans through monitoring of pipelines and releases. HR also works hand-in-hand with UBP on the harmonization of compensation and benefits.

To align with the Core values and culture of BK, employees of PBI and FB will also undergo a Culture Development Program scheduled for the 2nd quarter of 2023.

The merger application has received the confirmation letter from the Philippine Competition Commission (PCC), consent from Philippine Deposit Insurance Corporation (PDIC), and last September 12, 2022, it received the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). After the BSP approval, the application was submitted to the Securities and Exchange Commission (SEC). The merger shall become effective upon receipt of the approval of the SEC.



Corporate Social Responsibility



In line with its mission of creating financial inclusion and promoting economic development, Bangko Kabayan is committed to investing and developing communities to create brighter prospects for its people. Taking this true to heart, our employees rolled out 25 Bayani ng Komunidad projects through Bangko Kabayan Foundation Inc. (BKFI) which are mainly centered on the following:

1. Covid responses;
2. Hunger response through Digital Challenge for Companies, a campaign launched by Action Against Hunger in partnership with the Philippine Business for Social Progress (PBSP). Through teamwork, perseverance, and the spirit of charity, the 10-member bicycle team of Bangko Kabayan Foundation, Inc. (BKFI) was able to donate 2,583 kilometers in four weeks to fight hunger in the Philippines;
3. Installation of solar lights in dark barangay roads to help prevent accidents and crimes in different parts of Batangas;
4. Brigada Eskwela Activities;
5. Eco bricks Projects

Overall, BK was able to transform 795 sacks of trash into Eco brick projects. The combined activities of the foundation last year directly benefited a total of 40,755 individuals in the communities we serve.

We are happy to announce that BKFI received its second XTrash Trophy Award last November 2022 wherein we were able to collect 362 kilos of trash for the X-trash challenge.

BKFI also sponsored and conducted face-to-face Entrep Eskwela sessions in 4 batches facilitated by the bank's Entrep Eskwela Guru which was participated by 88 micro-entrepreneurs.

Lastly, with the bank's Annual Christmas Outreach facilitated by BK employees in different communities in Batangas, Laguna, and Quezon areas, BK was able to reach more or less 500 beneficiaries. Activities include reverse caroling with Noche Buena Package, distribution of Pangkabuhayan packages, and providing school supplies and Jollibee meals to indigenous students.

Future Directions

Moving forward, Bangko Kabayan is committed to continuing its thrust to move towards digitalization which will enable the bank to improve its backroom processes and provide a better customer experience. Bangko Kabayan will keep going, keep growing and pushing beyond limits.

Maraming salamat.

Beatriz B. Romulo
President / CEO