2019 ANNUAL REPORT

LAGAWE HIGHLANDS RURAL BANK, INC.

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Corporate Policy

OUR VISION

To be a *stable financial institution* that contributes actively to the *development of sustainable local economies in areas where it operates.*

OUR MISSION

"Enriching People's Lives"

To provide loan, deposit and other financial packages that are relevant, accessible, affordable, and inclusive of the unbanked and underbanked sectors in the community.

Corporate Logo

The BancoLagawe logo was designed by Mr. Enrique “En” Gallardo, Jr., an artist and a former staff of the Philippine Rural Reconstruction Movement (PRRM). The logo resembles the Ifugao Rice Terraces, with three steps and top knoll. The entire logo also symbolizes a fig of *palay,* with the leaves branching out and the grains on the top. The three concentric semi-circles also represent the private sector, government and civil society representing a tripartite approach in local economy development. The semi-circles also stand for the community of borrowers, depositors and investors who need to nurture and protect the financial health (symbolized by the golden circle) of the bank, like a baby being carried in an *oban* or baby sling carrier.

BancoLagawe Brand

BancoLagawe offers affordable, accessible, personalized, and pioneering products and services with its own signature friendly, sensitive, prompt, attentive, and responsive customer care. The Bank takes pains to build and nurture fair, transparent, honest, and mutually beneficial relationships with all stakeholders. The Bank also practices financial inclusiveness and social responsibility. BancoLagawe operates as a social enterprise, profiting from work that benefits people and the local economy.

BancoLagawe Business Model

The bank is owned by individuals, families, and organizations bound together by love of community and the common desire to serve. From a historical perspective, the bank's initial capitalization of P3.5 million in 1999 was raised from rural development advocates of the Philippine Rural Reconstruction Movement (PRRM), whose advocacy is the establishment of an alternative rural finance through a people's bank. In 2007, the ownership of the bank was broadened to include the Paragon Credit Cooperative (PCC) in Quezon City, the Aldersgate College in Solano, Nueva Vizcaya, and some prominent rural development-oriented individuals and families from Manila, Ifugao, and Nueva Vizcaya, as well as bank employees. The bank continues to accept other investors with the caveat that the majority of the stocks will be owned by rural development-oriented institutions and individuals.

At present, the primary mode of delivering the services of the bank is through the traditional branching in strategic locations. In the future, the bank shall endeavor to maximize the opportunities that the present and future digital technologies can offer to be able to reach the unbanked and underbanked in the far-flung communities. However, in exploring the non-traditional modes, the bank is cognizant of the risks thereto and shall identify and implement the mitigating measures.

The growth of the Bank is measured by the growth in its earning assets. Its sustainability is gauged by capital adequacy, profitability, and asset quality. To this end, the Bank strives to benchmark its financial performance with the rural banking industry. But more importantly, it endeavors to keep its eyes on its purpose of "enriching people's lives," especially those in the highland countryside, because sustainability requires that the bank positively impacts the lives of its customers and the community at large. The growth and sustainability of the bank also require that it has to be professionally managed by competent officers and staff who are capable of delivering excellent service and desired outcomes.

Financial Highlights

		Parent Bank (Solo)	
		Current year 12-31-2019	Previous year 12-31-2018
Profitability			
	Total Net Interest Income	30,702,702.60	25,773,953.00
	Total Non-Interest Income	10,339,194.18	10,683,925.00
	Total Non-Interest Expenses	36,890,169.26	31,114,206.00
	Pre-provision profit	4,151,727.52	4,343,672.00
	Allowance for Credit Losses	1,346,958.08	4,070,302.00
	Net income	2,131,971.06	264,694.00
Selected Balance Sheet Data			
	Liquid Assets	80,481,989.67	80,309,339.00
	Gross Loans	302,912,623.59	308,936,934.66
	Total Assets	429,124,501.21	426,821,398.00
	Deposit	252,359,333.86	274,005,832.00
	Total Equity	50,939,122.52	48,578,153.00
Selected Ratios			
	Return on Equity	4.34%	0.70%
	Return on Assets	0.54%	0.06%
	CET 1 Capital ratio (For UB's/KBs)		
	Tier 1 Capital ratio (for UB's/KB's)		
	Capital Adequacy Ratio	10.68	10.78
Per Common share data (For UB's/KB's and Publicly listed Banks)			
	Net Income per share:		
	Basic	0.56	0.01
	Dilluted	0.56	0.01
	Book value	13.46	12.92
Others			
	Cash Dividends declared	0	0
	Headcount		
	Officers	9	9
	Staff	33	34

Financial Condition

PRESIDENT'S REPORT
ANNUAL STOCKHOLDERS MEETING
15 May 2020

CAPITAL ADEQUACY

1. The Bank's **total capital** grew 119.86% over the last 10 years and its **paid-up capital** grew by 89.2% during the same period. This translates to an average annual growth of 11.98% for total capital and 8.92% for paid up capital. As of year-end 2019, total capital grew by 1.16% from year-end 2018, while paid up capital grew by 0.61% – both significantly less than recorded average growth.

2. **Risk-based capital adequacy ratio** (RBCAR) is at 10.68% as of December 2019. While this is still within the BSP-required ratio of 10%, it is hanging thinly by a thread. The Bank needs to raise RBCAR to at least 12% within the year 2020 to be in a more comfortable position as far as capital adequacy is concerned. However, 18% is the ideal number, sufficient enough to absorb unexpected losses.

ASSET QUALITY

1. **Total assets** grew 328.4% over a 10-year period from 2009-2019, growing by an annual average of 32.84%. As of end-2019, total assets registered only a slight increase of 1.63% from the previous year, in line with the Bank's plan to moderate the growth in its assets to contain the slide in capital adequacy.

2. **Loan portfolio,** which consists 70% of total assets, grew by 268.37% over the last 10 years. It increased by an annual average of 26.84%. Last year (2019), total loan portfolio recorded a negative growth of 4.43%, the third time it happened in a period of 10 years – the other two being 2011 (-7.07%) and 2016 (-8.38%). As in assets, the decrease in loan portfolio was partly a result of controlling growth to conserve capital and as a means to better manage the quality of the portfolio.

3. **Loan releases** for the last 10 years consisted 87.58% of all loans granted by the Bank since 2001. From 2009 to 2019, loan releases grew by 121.77% or at an average of 12.18% per year. In 2019, loan releases decreased by 15.05%. As of end 2019, the Bank has granted cumulative loans of P2.46 billion.

4. While total assets, loan portfolio and loan releases continued to grow, **past due loans (PDL)** increased over the years, from P6M in 2009 to P58.36M at the end of 2019, a whopping increase of 872.67% over a 10-year period. **Past due ratio (PDR)** also increased from a single digit of 7% in 2009 to 19.81% in 2019. If it's any consolation, there was a slight reduction of 9.33% in PDL and 1.03% in PDR from 2018 to 2019. **Real and other properties acquired (ROPA)** also jumped by 1582% from P2.12M in 2009 to P35.66M at the end of 2019.

Liquidity

1. The Bank generated **deposits** of P252.36M as of end-2019. This grew by 350.61% over a 10-year period from 2009 to 2019, average annual growth of 35%. The significant growth in deposits over the years demonstrates the public's trust in the Bank.

Lessons Learned from the Past

1. Growth is not everything. Growth in assets, loan portfolio, loan releases must be within the capacity of capital to support. Adequacy of capital must always be considered when planning to expand assets, products, human resource, and areas of operation.

2. Profitability does not always come from growth in assets or loan portfolio. It can also come from good quality assets and portfolio. In fact, the quality of assets is paramount in assuring sustainable profit. A big portfolio will eventually turn out to be a burden to manage if the quality of accounts is not ensured from the beginning.

3. Nothing can replace due diligence in ensuring the quality of assets. Due diligence must be clear and defined at every step of the credit and banking process. Due diligence and excellence must become a practice and culture within the organization.

4. Cost matters. The high cost of our funds is one reason why we are not that profitable. Capital is the cheapest fund, it does not incur interest expense. We must strive to sustain the growth of our capital. Deposit generation must target the low-interest facilities (regular and basic deposits) and it must be done on a massive scale. In doing this, we also practice financial literacy and financial inclusion.

5. As a banking business, our success is still largely measured by the financial bottom line. Our stability as a financial institution is largely measured by the stability of our income statement, balance sheet, and cash flow. Those are management results.

6. As a business with a conscience, we also have a social bottom line – the satisfaction of the people that we serve (customers) and the people that we work with (employees). Trusting, caring, and teaching are ways by which we can retain customers and employees.

The above lessons are embedded in the new 5-year vision, mission and strategic objectives of the bank for 2020-2024. By always keeping in mind the lessons that we learned in our banking practice, we are confident that we will overcome the challenges that we are facing and the new ones that are coming our way.

Risk Management Framework

Risk Management Culture and Philosophy

As a bank supervised by the Bangko Sentral ng Pilipinas, BancoLagawe has the responsibility to establish and maintain adequate risk management systems that are tailored to its nature, scale and complexity.

BancoLagawe's businesses incorporate a broad range of risk requirements, from lending to deposit services. The different branches and departments/divisions within BancoLagawe have particular risk requirements in different aspects.

BancoLagawe faces new legislative and corporate governance challenges and requires a progressive risk management policy that is able to adapt to the evolution of the businesses and their obligations.

The Bank's risk management system will be implemented and maintained on an ongoing basis and will permeate the policies and process of the entire BancoLagawe system. Compliance with this Policy will be monitored regularly as part of the Bank's internal audit process and will be actively monitored and endorsed by senior management.

The Bank's risk management system should bring all risks to the forefront of any anticipated business transaction for consideration by key stakeholders. A comprehensive risk management process will assist the Bank to:

1. Minimize negative financial and operational results;
2. Strengthen business partner relations;
3. Execute more efficient and effective processes;
4. Satisfy the legal and regulatory requirements imposed on it by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Bureau of Internal Revenue (BIR); local government units (LGU), etc.
5. Improve individual accountability and give greater transparency to decision-making; and
6. Exploit business opportunities quickly with full appreciation of risks involved.

BancoLagawe adopts the risk management approach outlined in this Policy Manual with sufficient flexibility to ensure it is able to adapt to the changing needs of the business. It is the firm belief of the bank's Management, the Risk Management, and the Board of Directors that an effective risk management strategy, a sound risk identification process and stringent risk reporting provide a solid framework for effectively managing the Bank's risks.

2019 Risk Challenge/ Significant Risk Areas

The Bank acknowledges its lapses in assessing the adequacy of capital where we largely relied on the accomplishment of target net income to add to capital. When it was evident that quality of loans is continuously deteriorating, there were efforts to increase the Bank's capital through cash infusion within the year and non-declaration of cash dividends.

On relaxation of established policies that resulted in the weakening of the quality of the loan portfolio, Management acknowledges that there indeed was relaxation in credit granting policies when Management and the Board decided to increase its risk appetite in favor of releasing more loans in the context of relatively high liquidity.

Management recognizes the effects of the above lapses in the Bank's results in asset quality, profitability and capital. This realization is a valuable lesson for us and we commit to take these into consideration in the Strategic Plans of 2020-2024 with the aim of improving the results of our overall operations.

Risk Appetite and Strategy

The Bank does not encourage excessive risk taking. The risks in loans and deposits are reduced and mitigated through diversification or non-concentration in one sector, location, or market segment. Following are the Bank's strategies incorporated in BancoLagawe's Fund Management and Contingency Plan:

a. On loan exposures

1. As to amount of loan
   - P10,000 to P500,000 — no limit
   - >P500,000 to P2,500,000.00 — maximum exposure of 50% of previous month's TLP
   - >P2,500,000 — maximum exposure of 30% of previous month's TLP

2. As to purpose of loan
   - Business Loans — maximum exposure of 50% of TLP
   - Contractors Loans — maximum exposure of 50% of TLP
   - Overseas Filipino Workers Loan — maximum exposure of 15% of TLP
   - Agricultural Loans — maximum exposure of 35% of TLP
   - Mortgage Redemption Loans — maximum exposure of 35% of TLP
   - Asset Acquisition Loans — maximum exposure of 35% of TLP
   - Housing Loans — maximum exposure of 25% of TLP
   - Salary Loans — maximum exposure of 25% of TLP
   - Start-up Business Loans — maximum exposure of 5% of TLP
   - Market Vendors Loans — maximum exposure of 2% of TLP
   - Fringe Benefit Loans — maximum exposure of 5% of TLP

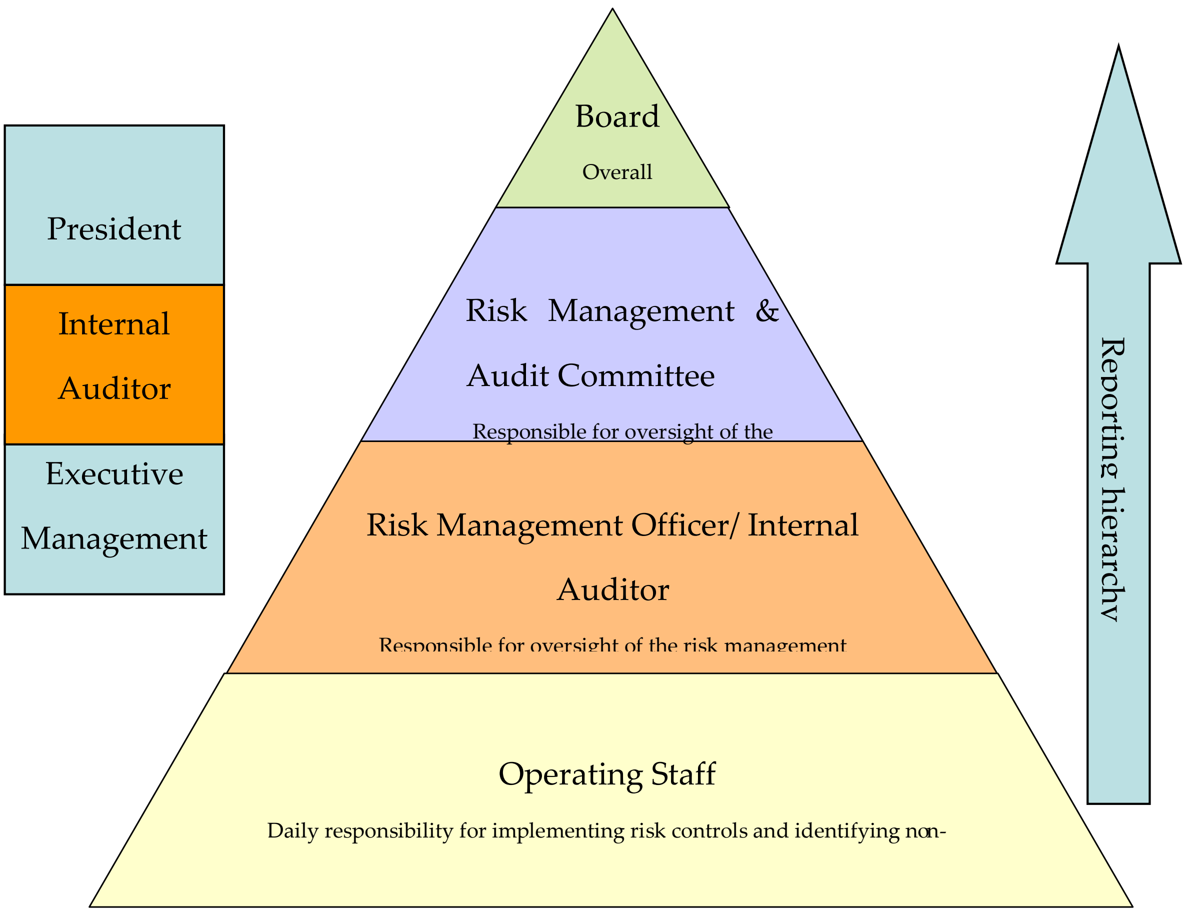
3. As to Security
   - Secured Loans — no limit
   - Unsecured Loans — maximum exposure of 35% of TLP

b. On deposit exposures

• Regular Savings Deposit	no limit
• Special Savings Deposit	maximum exposure of 40% of TDP
• Premium Savings Deposit	maximum exposure of 40% of TDP
• Long Term Time Deposit	maximum exposure of 50% of TDP

Risk Governance Structure

The Board has determined that in order to have an effective risk management system in place, it must receive advice from, and have risks monitored by, a number of sources. These groups are set below with a reporting hierarchy illustrated below.



Involved in the risk management structure of the bank are the Board of Directors, President, Risk Management and Audit Committee, Internal Auditor/Risk Management Officer, Executive Management and Staff.

BOARD OF DIRECTORS

The Board has overall responsibility for ensuring that management has developed and implemented an effective risk management system. It has delegated the oversight of risk management to the Risk Management and Audit Committee. Nevertheless, the Board remains responsible for:

i. Setting company goals and business strategies (with the assistance of senior management);
ii. Maintaining appropriate corporate governance structures; and
iii. Ensuring appropriate risk managements systems are in place (including ensuring this Policy is maintained).

PRESIDENT

With overall responsibility for the operations of the Bank, the President plays an active role in setting the direction of the Bank and determining which transactions to enter into (thus impacting on the Risk Threshold). The President will:

i. Drive the establishment of business strategies and objectives;
ii. Ensure there are appropriate controls in place to manage all risks;
iii. Ensure all employees are aware of the Bank's risk management obligations and that risk management is embedded within the Bank's culture; and
iv. Use his business knowledge and acumen to determine what activities can be absorbed as part of the Risk Threshold.

RISK MANAGEMENT AND AUDIT COMMITTEE (RMAC)

The RMAC shall be delegated the oversight of risk management. The Board considers this appointment important in providing focus and oversight on risk management and internal controls on risk management. It is the RMAC's task to:

i. Review, recommend and oversee implementation of the risk management process;
ii. Provide assistance and guidance on risk management;
iii. Monitor and review the risk management process;
iv. Review the efficacy of internal controls generally, including the interaction between risk management and internal audit.
v. Provide advice to the Board on any non-compliance to the risk management framework; and
vi. Ensure risk management is promoted within the Bank, particularly to executive managers and their direct reports to ensure it is embedded within the overall Bank culture.

INTERNAL AUDITOR (IA)

An Internal Auditor has been appointed to perform the internal audit function. It is the IA's role to:

i. Assist in monitoring risk management;
ii. Review the risk matrix annually;
iii. Ensure compliance with this Policy;
iv. Provide guidance on existing controls and their adequacy to the respective risk; and
v. Monitor in particular all risks within the Bank.

RISK MANAGEMENT OFFICER (RMO)

The RMO is responsible for overseeing the implementation of the risk management function at BancoLagawe. He shall have day-to-day responsibility for the implementation of the risk management function.

The Board has determined that such a division, which incorporates compliance and legal oversight within the Bank, is best served to maintain this Policy's currency and accuracy in light of legal, operational and regulatory developments. The RMO Officer has a broad responsibility to:

i. Challenge executive management and the Board to demonstrate appropriate risk management systems and controls for all risks;
ii. Conduct regular reviews of the organization to identify new risks, remove old risks and re-rate current risks;
iii. Coordinate the risk management process;
iv. Provide a report on risk management issues to the RMAC at each meeting and to the Board
v. Maintain the Risk Register;
vi. Maintain this Policy; and
vii. Ensure there is adequate coverage of risk management across the entire business.

The RMO is recognized as a senior employee within the Bank and is to be given the necessary access to people, information, systems and resources to ensure the proper discharge of the risk function. This may require access to past records, research, financial statements and analyses, and expert opinion. The Board supports the role of the RMO and will direct management to provide resources and access commensurate to the proper performance of the risk function.

At present, the Internal Auditor is also the Risk Management Officer (RMO) of the Bank.

EXECUTIVE MANAGEMENT

With assistance from their staff, executive management have the task of:

i. Ensuring risks are managed and considered on a daily basis;
ii. Conducting annual business reviews to address inherent and residual risks;
iii. Determining appropriate controls to risks identified relating to their business function; and

iv. Embedding the culture of risk management within their department/branch.

OPERATING STAFF

Staff performing daily operations have a responsibility to implement the risk management process as it relates to their business function. Generally speaking, all employees must:

i. Report on any instances of non-compliance with this Policy or the risk management process in general;
ii. Inform management of any new risks as the result of a business activity; and
iii. Ensure controls in place over a risk are operating properly.

RISK REPORTING

Annual Review

This Policy and the risk management framework generally will be reviewed on an annual basis. The Board has determined that the relevant 12 month period shall be that ending on December 31 of each year.

The RMO is responsible for the coordination of the annual risk review. Internal audit will provide complementary services and oversight to the risk review and will report to the RMO on its findings.

The method of conducting the review and compiling the report are not mandated, but must include the following items:

i. Currency and accuracy of the risk matrix, the RMS and this Policy
ii. The level of risk management being embedded in business processes
iii. Effectiveness of RMS system in monitoring risk
iv. Impact of risk management framework on:
    a. Seizing business opportunities
    b. Avoiding previously accepted risks
    c. Transferring risks – impact on insurance premiums v ability to rely on cover
v. Compliance with SEC Corporate Governance Principles
vi. Compliance and adherence to risk controls and to risk treatment plans
vii. Any other specific parameter requested by the Board or Committee.

A report is to be compiled on the risk review as a collaborative effort of the RMO and Internal Audit and accordingly, the report must confirm both parties acceptance of the report and the recommendations contained therein.

The risk review must be completed by no later than March 31 each year and a report submitted to the RMAC at the next available meeting. The RMAC will be responsible for reviewing and overseeing the implementation of any actions that arise from the review. The report will then be tabled at the next Board meeting.

Risk Management Reports

Report to the Board

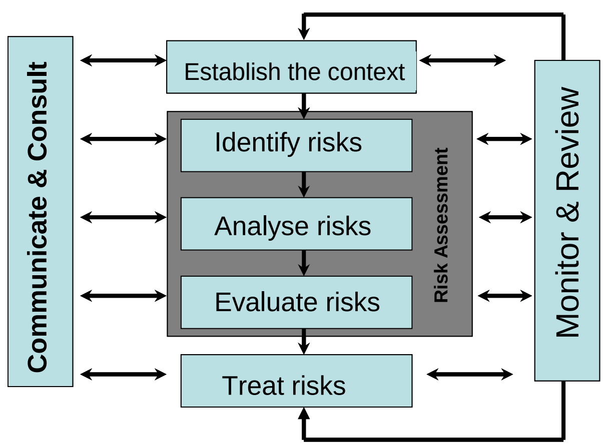
Notwithstanding oversight of the risk management function has been delegated to the RMAC, the Board considers it crucial that it be kept abreast of developments in risk management within BancoLagawe. Monthly RMAC Reports will be tabled at the next Board meeting for review and comment. Any actions that arise from a Board meeting will be automatically delegated to the Committee for implementation and reporting.

Monthly Risk Management Report

The Risk Management and Audit Committee (RMAC) meets on a monthly basis and both it and the Board consider ongoing updates of risk management to be of paramount importance. A risk management update is on the agenda as a standing item.

<u>Risk Management Process</u>

Diagrammatically, the risk management process is best depicted as follows:



STEP 1: ESTABLISH THE CONTEXT

As a precursor to establishing a risk management strategy, it is important to understand the environment within which the Bank is operating. This requires the Bank to consider, among other things:

(a) The internal context – culture, business structure, reporting lines, resources, capabilities (people and systems);

(b) The external context – business, political, financial, regulatory environments;

(c) the legal and compliance framework and the scrutiny of the regulators;

(d) the requirements of its key alliance partners, including Rural Bankers' Association of the Philippines (RBAP) and Bankers' Association of the Philippines' members, key suppliers, key customers and other business partners;
(e) the actions of its representatives (including employees and third party outsourced service providers);
(f) the industry framework (to align bank objectives with industry standards); and
(g) Corporate goals and objectives for the bank.

BancoLagawe will develop on an annual basis a Business Strategic Plan that will outline its goals, objectives and visions for the upcoming year and immediate future years. The Bank will then determine what risks it faces in following this Business Plan and what its approach will be in handling them (whether managing, avoiding or otherwise dealing with them).

STEP 2: IDENTIFY THE RISKS

Corporate Officers, Branch/Divisional Managers, with assistance from the RMO, will be responsible for generating and reviewing a list of risk factors that may compromise the Bank's operation, financial or reputational position now or in the future.

Particular focus is given to risks that compromise the Bank's ability to provide banking services to, or adversely impacts customers. This emphasis is given in light of the Bank's desire to continue to grow, develop and add value to its share and other stakeholders;

STEP 3: ANALYZE THE RISKS

The qualitative measures of likelihood and consequences are outlined in the Risk Rating Guidelines shown in the matrix below.

Qualitative measures of Likelihood. The following table should be used as a guide when trying to rate the likelihood of a risk occurring any given year:

Rating	Description	Likelihood Values	Factor
Almost certain (5)	The event is expected to occur in almost circumstances	Occurs more than once per year (1 in 3)	90
Likely (4)	The event will probably occur in most circumstances.	Occurs around once a year frequently (1 in 1).	70
Possible (3)	The event should occur at some time.	Occurs around once every 10 years or occasionally (1 in 10).	50
Unlikely (2)	The event could occur at some time.	Occurs around once every 30 years or unusually (1 in 30).	30
Rare (1)	The event may occur in exceptional circumstances.	Occurs once in around 100 years or rarely (1 in 100).	10

Once a risk has been rated in terms of likelihood and consequence, a risk matrix is used to rate the risk. Those risks with a high likelihood and an extreme consequence will attract a significant rating, and it will be incumbent upon the bank to either place tight controls around the risk or avoid it completely.

Each risk is to be analyzed in terms of how likely the event is to occur (this can be given a rank of Rare to Almost Certain) and the consequences of each risk's potential impact on the organization, ranging from 1 (insignificant) to 5 (catastrophic).

Risk Classification Matrix. The likelihood and consequences of the happening of a risk event are presented in the matrix below. The consequences of the event could either be insignificant, minor, moderate, major or catastrophic.

LIKELIHOOD	Consequences					
		Insignificant	Minor	Moderate	Major	Catastrophic
	Almost Certain	Low	Moderate	High	Extreme	Extreme
	Likely	Low	Moderate	High	Extreme	Extreme
	Possible	Low	Low	Moderate	Moderate	High
	Unlikely	Low	Low	Moderate	Moderate	High
	Rare	Low	Low	Low	Moderate	High

STEP 4: EVALUATE THE RISKS

The evaluation process involves the application of risk controls to the risks identified at Step 2. The controls should be agreed upon by a working group on an annual basis to ensure currency and accuracy.

Once the control(s) have been determined for the risk, they should be given a rating. The ratings scale has 4 levels; level 1, being a poor control or no control at all to level 4, being a sophisticated control that is regularly reviewed and that is likely to lower the inherent risk. This rating is to be applied to the inherent risk to determine the residual risk (i.e. the risk that remains after all control mechanisms are considered and applied). The residual risk is then reassessed using the residual risk rating, which can be found in the Risk Rating Guidelines.

The residual risk rating should be used to determine future action to be taken for that risk or a group of risks with similar properties.

Control Effectiveness. The effectiveness of the risk control system of the Bank may be assessed using the following matrix.

Quantitative Description	Qualitative Description	Explanation
5	Very Strong	Significant attention to risk. All feasible economic controls have been undertaken. Maintaining a monitoring system
4	Strong	Aware of risk and have taken precautions to limit likelihood and/or consequence
3	Moderate	Not as prepared for this event as desired
2	Poor	Basic risk management systems, process controls and procedures in place. No guarantee that risk will be controlled or yet to be assessed
1	Non-Existent	Controls do not exist or else are not operating effectively. Risk will not be controlled

STEP 5: RESPOND TO THE RISKS

BancoLagawe must respond to all risks, which involves identifying the options available to treat risks, assessing the options and implementing a treatment plan based on the accepted option. The appropriate level of response to a risk will be based on a number of factors, including resources (human and financial), worst case scenario, versus practical likelihood and return on investment.

Positive Outcomes. Risks identified as having positive outcomes, such as exploiting a business opportunity may be treated in a number of ways:

(a) *Seek out the opportunity – where practicable, a treatment plan should be adopted that seeks out the opportunity (which may include a new business venture, acquisition or other method of entering a market or activity);*

(b) *Change likelihood* – an opportunity is more likely to present itself or be realized where the likelihood of the event occurring is enhanced.

(c) *Change consequence* – all steps should be taken to increase an existing opportunity by way of synergies, increased resources or greater focus on the business activity.

(d) *Sharing the opportunity* – potential barriers to exploiting an opportunity may be removed by the involvement of another party to provide additional resources or capabilities. Adopting alternate organizational structures, entering joint ventures or licensing arrangements may allow for the further exploitation of a current opportunity or development of a new opportunity.

(e) *Retaining the opportunity* – no action being taken, satisfied that the opportunity is being appropriately exploited or put to benefit for the company.

Negative Outcomes. Risks identified as negative outcomes, such as financial or reputational loss may be treated in a number of ways:

(a) *Accept the risk* – this should be an informed decision made after careful consideration of the likelihood and consequence of the risk. It should also be made in light of the Risk Threshold set by the Board;

(b) *Avoid the risk* – all reasonable steps should be taken to avoid a risk, such as ceasing a business activity or terminating contracts;

(c) *Share/Transfer the risk* – involving another party to spread the risk may be beneficial to allow the Bank to continue participating in an opportunity presented by that risk. Insurance may be taken to transfer risk inherent in many business operations. Outsourcing functions where the

Company's expertise may be lacking, diversifying investments or insurance (PI insurance, D&O insurance); or

(d) *Treat the risk* – place further control mechanisms and encourage the risk to be reviewed appropriately. This can be as simple as improving the culture of compliance and risk management or restructuring business units.

All legal and regulatory requirements must be followed and no level of control can be implemented to negate this obligation.

STEP 6: MONITOR THE RISKS

Risk must be monitored to ensure the risk management process is effective. Risk monitoring is a responsibility of the entire bank employee in all levels with varying responsibility. Where possible, risk monitoring shall form part of the current framework of policy review, audit and compliance processes and shall maintain a regular review in line with this Policy.

<u>AML Governance and Culture</u>

BancoLagawe's Anti-Money Laundering Program serves as a comprehensive operating guideline for use of the Bank's Officers and employees in implementing the Anti-Money Laundering Law (Republic Act No. 9160, as amended) and other relevant rules and regulations issued by the Bangko Sentral Ng Pilipinas and the Securities and Exchange Commission to combat money laundering. In particular, the adopted AML program aims to achieve the following:

1. To promote adequate awareness regarding the rationale of the enactment of the anti-money laundering law and its importance to the general economy. It is also paramount that employees understand the concept of money laundering as a crime and the various activities and stages by which it is perpetrated in the economic system and through the different financial institutions.

2. To establish specific policies and procedural guidelines to ensure proper identification of customers and facilitate tagging and reporting of transactions as required under the law.

3. To ensure that officers and staff of the Bank clearly understand the responsibilities of the institution and each individual employee in carrying out the requirements of the anti-money laundering law and the accountabilities and penalties attached to non-compliance with such requirements.

Basic Principles to Combat Money Laundering

The bank adopts the following principles and policies in its institution-wide drive to combat money laundering:

1. High ethical standards - Conduct business in conformity with high ethical standards in order to protect its safety and soundness as well as the integrity of the national banking and financial system.
2. Know your customer - Know sufficiently your customer at all times and ensure that the financially or socially disadvantaged are not denied access to financial services while at the same time prevent suspicious individuals or entities from opening or maintaining an account or transacting with the covered institution by himself or otherwise:
3. Sound risk management - Adopt and effectively implement a sound aml and terrorist financing risk management system that identifies, assesses, monitors and controls risks associated with money laundering and terrorist financing;
4. Compliance with laws - Comply fully with these rules and existing laws aimed at combating money laundering and terrorist financing by making sure that officers and employee are aware of their respective responsibilities and carry them out in accordance with superior and principled culture of compliance; and
5. Full cooperation with AMLC - Fully cooperate with Anti-money Laundering Council (AMLC) for the effective implementation and enforcement of the AMLA, as amended, and its IRR.

Duties and obligations of the Bank in Relation to the AML Law

As a covered institution under the anti-money laundering law, the bank is required to implement and observe the following:

1. To ensure that true and full identity of all bank customers is established and to understand the nature of customer's business.

2. To preserve and store all records of all business transactions for a period of at least 5 years.

3. To report covered and suspicious transactions to the anti-money laundering council within five (5) working days from occurrence thereof, unless supervising authority prescribes longer period or upon verified/confirm knowledge of the bank on basis for such suspicious transaction.

Corporate Governance

Corporate Governance Structure and Practices

BancoLagawe's Board is composed of eleven (11) directors, all professionals with competencies and experience in the field of banking. Members are elected during the annual stockholders' meeting and will hold office for one (1) year, subject to the approved criteria of the Bank's corporate governance policies, BSP's fit and proper rule and other related laws and regulations.

The Board shall foster the Corporation's long-term success and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the best interest of its stockholders and other stakeholders. It shall formulate the Corporation's vision, mission, strategic objectives, and policies and procedures that shall guide activities, including the means to effectively monitor the management performance.

Selection Process for the Board and Senior Management

In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities regulation Code and other relevant laws, additional qualifications which include, among others, the following:

- **a.** College education or equivalent academic degree;
- **b.** Practical understanding of the business of the corporation;
- **c.** Membership in good standing in relevant industry, business or professional organizations; and
- **d.** Previous business experience.
- **e.** Filipino citizen with at least one (1) share of the bank's capital stock
- **f.** He must have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP:

Board nominees are selected by the Bank's stockholders. The Corporate Governance Committee reviews the qualifications of the nominees and applies the "fit and proper" rule in its evaluation. The committee shall consider the qualifications as stated above and possible conflicts of interest in determining suitability to be nominated to the Board.

Senior Management nominees are selected in accordance with the Bank's succession policy for employees.

Responsibility of the Board

To ensure a high standard of best practice for the corporation, its stockholders and other stakeholders, the Board should conduct itself with honesty and integrity in the performance of, among others, the following duties and responsibilities:

1. Implement a process for the selection of directors who can add value and

contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for management.

2. Provide sound strategic policies and guidelines to the corporation on major capital expenditures and establish programs that can sustain its long-term viability and strength.

3. Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and management overall performance.

4. Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.

5. Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation.

6. Identify the Corporation's stakeholders in the community in which the Corporation operates or are directly affected by its operations and formulate a clear policy of accurate, timely and effective communication with them.

7. Adopt a system of check and balance within the Board. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision-making and reporting processes at all times. There should be a continuing review of the corporation's internal control system in order to maintain its adequacy and effectiveness.

8. Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the corporation to anticipate and prepare for possible threats to its operational and financial viability.

9. Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among corporations and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking directors relationships be members of the board.

10. Constitute an Audit committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.

11. Establish and maintain an alternative dispute resolution system in the corporation that can amicably settle conflicts of differences between the corporation and its stockholders, and the corporation and third parties, including the regulatory authorities.

12. Meet at such times or frequency as may be needed. The minutes of such meetings should be duly recorded. Independent views during Board meetings

should be encouraged and given due consideration.

13. Keep the activities and decisions of the Board within its authority under the articles of incorporation and by-laws, and in accordance with existing laws, rules and regulations.

14. Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the corporate secretary, shall act as compliance officer.

15. Provide the stockholders with a balanced and comprehensive assessment of the Corporation's performance, position and prospects on a quarterly basis, including interim and other reports that could adversely affect the corporation's business as well as reports to regulatory agencies as required by law.

Chairman of the Board

The Chairman of the Board provides leadership in the Board of Directors. His/Her major role is to ensure that the Board is functioning effectively in its task of setting and implementing the Bank's direction and strategies. He is also expected to maintain a relationship of trust and confidence with other members of the Board.

Board Composition

DIRECTOR	TYPE OF DIRECTORSHIP	PRINCIPAL STOCKHOLDER REPRESENTED	NUMBER OF YEARS SERVED AS DIRECTOR	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES
WIGBERTO E. TANADA	NON-EXECUTIVE	INDIVIDUAL	20 years	7,294.00	0.19%
EDICIO G. DELA TORRE	NON-EXECUTIVE	PRRM	9 months	1,834,628.00	48.48%
WILLIE A. DAMASCO	NON-EXECUTIVE	INDIVIDUAL	12 years	122,819.00	3.25%
		ALDERSGATE		324,866.00	8.59%
MIRIAM RUTH D. TUGAWIN	EXECUTIVE		10 years	230,512.00	6.09%
GLENN ROY V. PARASO	NON-EXECUTIVE		11 years	161,036.00	4.26%
IRENE B. BINOHLAN	NON-EXECUTIVE		1 year	39,200.00	1.04%
MARLON P. PALOMO	NON-EXECUTIVE		15 years	1,691.00	0.04%
JAMES G. TAYABAN	NON-EXECUTIVE		9 years	16,964.00	0.45%
IRENE B. FERNANDEZ	NON-EXECUTIVE	INDIVIDUAL	6 years	811.00	0.02%
		PARAGON		253,041.00	6.69%
VIRGILIO A TIONGSON	NON-EXECUTIVE		10 years	2,329.00	0.06%
SANTIAGO D. SOLIVEN	INDEPENDENT		11 years	161.00	0.00%

Board of Directors

SENATOR WIGBERTO E. TAÑADA

Chairman

Filipino

85 years old

Chairman of the Board since 1999

Educational Background

Bachelor of Arts, Ateneo de Manila University

Bachelor of Laws, Manuel L. Quezon University

Master of Laws, Harvard Law School

Other Present Positions

Tañada, Vivo and Tan Law Office, Partner

Philippine Rural Reconstruction Movement, Chairman of the Board

Past Positions

House of Representatives, Congressman 1995-2001

Senate of the Philippines, Senator 1987-1995

Bureau of Customs, Commisioner 1986-1987

WILLIE A. DAMASCO

Vice Chairman

Filipino

73 years old

Vice Chairman of the Board since 2007

Educational Background

Doctor of Medicine, University of the East

Other Present Positions

Salubris Medical Center, Chairman of the Board

Vizcaya White Mana, Inc., Chairman & President

Vizcaya White Stone, Inc., Chairman & President

Valley Health System & Services, Chairman of the Board

Aldersgate College, Inc, Chairman of the Board

Past Positions

MMG Hospital, CEO & Chairman of the Board 1998-2002

Nueva Vizcaya Doctors' Hospital, Director 1978-1982

Vizcaya Kidney Center, Director 1979-1982

Board of Directors

MIRIAM RUTH D. TUGAWIN
Director

Filipino
59 years old
President and CEO since 2009

Educational Background

Bachelor Of Science in Social Work, University of the Philippines-Diliman
Master of Arts in Women and Development, University of the Philippines-Diliman

Past Positions

Philippine Coalition for the International Criminal Court, Project Coordinator 2006

Kanlungan Center Foundation, Inc., Program Coordinator 1993-2001

Service Foundation, Inc., Community Organizer 1992-1993

IRENE B. BINOHLAN
Director

Filipino
60 years old
Served the Bank since 1999 in various capacities as Cashier, Branch Manager, AVP, VP, SVP and Head of Credit Management Department

Educational Background

Bachelor of Science in Commerce, Major in Economics, St. Louis University-Baguio
Master of Science in Agricultural Economics, Major in Policy and Development, University of the Philippines- Los Baños

Past Positions

Philippine Rural Reconstruction Movement, Community Organizer and Area Coordinator for Northern Ifugao 1989-1994

Philippine Rural Reconstruction Movement, Special Assistant for Operations 1994-1995

Board of Directors

GLENN ROY V. PARASO
Director/ Treasurer

Filipino
57 years old

Director since 2008

Educational Background

Doctor of Medicine, University of the East

Master in Public Health, University of Wales

Other Present Positions

Mary Johnston Hospital, Executive Director

Past Positions

Cooperative Movement to Encourage Vasectomy,Director 2005-2013

IRENE B. FERNANDEZ
Director

Filipino
55 years old
Served as Compliance Officer in 2002 to 2006;
Director since 2013

Educational Background

Bachelor of Science in Business Administration, Philippine School of Business Administration
Master in Business Administration, Polytechnic University of the Philippines
Certificate Course on Women Entrepreneurship Promotion, Maastricht School of Management

Other Present Positions

Philippine Rural Reconstruction Movement, Social Enterprise Development Specialist

Past Positions

International Network of Alternative Financial Institutions (INAFI), Program Manager 2003-2012
PRRM, Project Coordinator 2003
PRRM, SLED Specialist-Rural Finance 1997-2002
PRRM, Branch Manager 1995-1997
PRRM, Assistant Branch Manager 1994-1995
PRRM, Branch Credit Analyst 1990-1994
PRRM, Branch Administrative Officer 1989-1990
The Manila Banking Corporation, Teller 1986-1987

Board of Directors

JAMES G. TAYABAN
Director

Filipino
57 years old

Director since 2010

Educational Background

Bachelor of Science in Mechanical Engineering, St. Louis University-Baguio
Master in Public Administration, St. Mary's University

Other Present Positions

Mabato-bato Indigenous People Organization, Chairman
Lamut Federation of IPOs, Municipal Convenor

Ifugao Elders Alliance, Vice Chairman

DENR-CAR, Assisting Professional- Contractual

Past Positions

Save the Ifugao Terraces Movement, Treasurer 2003-2016
2005
SITMO, Director 2000-2002
National Steel Corporation, Staff Engineer 1984-1986
PDRRMO-PLGU Ifugao, PDRRMO 2012-2013
MLGU, Councilor 2007-2010
PARCCOM-PARS, Member/Chair 1998-2002
PLGU Ifugao, Board Member 1992-1998

Department Of Trade and Industry, PTIO 1989-1991

MARLON P. PALOMO
Director

Filipino
57 years old
Director since 2004

Educational Background

Bachelor of Science in Architecture, Araullo University
Master in Entrepreneurship, Asian Institute of Management
NGO for Rural Development Management, Fundacion El Taller

Other Present Positions

International Network of Alternative Financial Institutions (INAFI), Executive Director

Millenium Harvest Credit Corporation, Chairman
Kooperatibang Likas ng Nueva Ecija, Chairman
Philippine Rural Reconstruction Movement- Nueva Ecija Chapter, Chairman
Philippine Rural Reconstruction Movement, Vice President

Past Positions

Dept. of Agrarian Reform, OIC-Director IV 1998-1999
Dept. of Agrarian Reform, Consultant 1998

Board of Directors

VIRGILIO A. TIONGSON
Director

Filipino
81 years old
Director since 2009

Educational Background

Bachelor of Science in Business Administration, Mapua Institute of Technology
Master in Public Administration, St. Mary's University

Other Present Positions

Medical Mission GroupHospital Health Services Cooperative, Administrator
St. Mary's University, Member-Board of Trustees

Past Positions

Dupax Coop Marketing, President 1969-1970

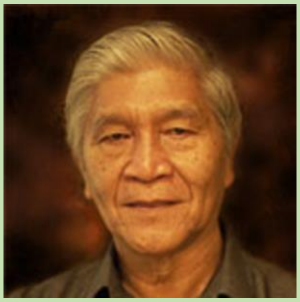
Knights of Columbus, District Deputy 1970-1975

Solano Rang-ay Credit Union, Consultant 1975-1980
Rotary Club- Vizcaya, Charter VP/ President 1982-1983
St. Louis School Alumni, President 1983-1985

Nueva Vizcaya Furniture Producers Association, President 1988
National Steel Corporation, Director 1988
Keys Realty Corporation, Director 1988
Alay Kapwa Multi-Purpose Cooperative, Director 2004-2006
Nueva Vizcaya Lumber and Trading Co., Inc, Director/General Manager 1964-1993
Nueva Vizcaya Agricultural Trading, Inc., Director/ General Manager 2001-2004
Summer Institute of Linguistics, Member-Board of Trustees 2011
BLGU-Poblacio North, Solano, NV - Barangay Captain 1975-1980
MLGU-ABC Solano, NV - President 1975-1980
PLGU-ABC Nueva Vizcaya - President 1975-1980
Province Of Nueva Vizcaya, Board Member 1975-1980
Batasang Bayan, Member 1976-1978
Namfrel, Provincial Chairman 1984-1985
People's Economic Council, Provincial Chairman 1987 1989
People's Economic Council, Regional Chairman 1988-1990
People's Economic Council, National Vice President 1988-1991
Regional Development Council, Chairman/ Committee on Finance 1988-1991
PLEB, Member 1988-1991
Regional Fund Management Committee/ Tulong sa Tao (DTI), Member 1989-1991
Province Of Nueva Vizcaya, Provincial Administrator 1992-2004

Poro Point Management Corp., Director 2008-2011

Board of Directors



ABUNDIO EDICIO G. DELA TORRE
Director

Filipino
76 years old
Director since March 2019

Educational Background

Bachelor of Arts in Philosophy, Christ the King Seminary, Quezon City
Master of Arts in Philosophy, Christ the King Seminary, Quezon City

Other Present Positions

Philippine Rural Reconstruction Movement, Vice Chairperson

Education For Life, Chairperson

GMPI, Global Mindanaw, Chairperson

Past Positions

TESDA, Director General 1998-2001
Philippine Coconut Authority, Board Member, 2014-2018

SANTIAGO D. SOLIVEN
Independent Director

Filipino
67 years old

Director since 2008

Educational Background

Bachelor of Science in Commerce, Major in Accounting, St. Mary's College
Master in Public Administration, St. Mary's University
Master in Management, Trinity College of Quezon City

Other Present Positions

St. Mary's University, Assistant Professor (Part-time
Nueva Vizcaya Government Employees Multi-Purpose Cooperative, Vice Chairman

Past Positions

Province of Nueva Vizcaya, Provincial Accountant 2016-2018
St. Mary's University, Instructor 1994-1995

Board-Level Committees, Membership and Function

To aid the Board in the task of corporate governance, the following committees, among others, have been created:

a. Risk Management and Audit Committee (RMAC): To assist in fulfilling its responsibilities, RMAC be responsible for the development and oversight of the risk management program for the Bank.

1. Reviewing and, if satisfied, recommending the compliance policy proposed by senior management and forwarding it to the full Board for final approval.

2. Reviewing the mandate of the Head Internal Auditor and Chief Compliance Officer to ensure fulfillment of the requirements of his position and of the BSP or any other regulatory authority to which the Bank is subject.

3. Reviewing the effectiveness of the compliance system.

4. Reviewing the results of Internal Auditor/CCO's investigation and follow-up (including disciplinary actions) of any fraudulent acts or non-compliance.

5. Reviewing the finding of any examinations by regulatory agencies, external and internal auditors and CCO.

6. Obtaining periodic updates from CEO and CCO regarding compliance.

7. Satisfying itself that all regulatory compliance matters have been considered in the preparation of the financial statements.

8. Reporting to the Board of Directors its conclusions on the effectiveness of the Bank's implementation of the compliance policy.

Risk Management and Audit Committee consists of four (4) members, the Chairman of which is an Independent Director. The Committee reports to the Board, following the committee meetings. The report may take a form of an oral report by the chair or by any other member of the Committee designated to make the report.

In 2017, the Board decided to maintain only the Risk Management and Audit Committee as a regular Board-level Committee. The Credit Committee is convened with the sole purpose of approving and disapproving loan applications within its level of authority designated by the Board. The Corporate Governance Committee and other AdHoc committees convene only when necessary as directed by the Board.

Directors' Attendance

Board of Directors' Meetings

During Fiscal Year March 2019-February 2020, the following members of the Board of Directors have a summary of attendance as follows

REPUBLIC OF THE PHILIPPINES)
Province of Ifugao)
Municipality of Lagawe) SS

SECRETARY'S CERTIFICATE

I, EILEEN B. MAGULING, Filipino, of legal age, married, with residence address at Poblacion West, Lagawe, Ifugao, Philippines, after having been duly sworn in accordance with law, hereby depose and say that:

1. I am the duly elected Corporate Secretary of Lagawe Highlands Rural Bank, Inc.,*(herein referred to as the "Bank")* a bank existing and organized under and by virtue of the laws of the Philippines, with principal address at 59 J.P. Rizal Ave., Poblacion East, Lagawe, Ifugao;

2. That during Fiscal Year March 2019 - February 2020, the following re-elected members of the Board of Directors, have a summary of attendance as follows:

Name	Present	Total Meetings	Percentage
Wigberto E. Tanada	12	12	100%
Willie A. Damasco	12	12	100%
Miriam Ruth D. Tugawin	12	12	100%
Glenn Roy V. Paraso	12	12	100%
Virgilio A. Tiongson	11	12	91.67%
James G. Tayaban	12	12	100%
Abundio Edicio G. dela Torre (elected March 2019)	11	11	100%
Marlon P. Palomo	12	12	100%
Irene B. Fernandez	11	12	91.67%
Irene B. Binohlan	12	12	100%
Santiago D. Soliven	12	12	100%

IN WITNESS WHEREOF, I have hereunto set my hand this 15 day of JUN 2020 20___, at Lagawe, Ifugao, Philippines.

EILEEN B. MAGULING
Signature over Printed Name
Affiant

SUBSCRIBED AND SWORN to before me on the date and place above-mentioned, affiant exhibiting his/her Tax Identification Number 927-930-811.

Notary Public

ATTY. ANGELITO C. BACLIG
NOTARY PUBLIC
UNTIL DEC. 31, 2020
PTR NO. [illegible] / JAN. 6, 2020
IBP NO. 101904/JAN. 7, 2020
ATTORNEY ROLL NO. 32023
MCLE NO. VI-0029393/11-22-2019
SOLANO, NUEVA VIZCAYA

Doc. No. 3;
Page No. 1;
Book No. 112;
Series of 202

Risk Management and Audit Committee (RMAC) Meetings – March 2019 to February 2020

Name	Present	Total Meetings	Percentage
Santiago D. Soliven - Chairman	12	12	100%
Marlon P. Palomo	12	12	100%
Virgilio A. Tiongson	11	12	92%
Glenn Roy V. Paraso	8	12	67%

Senior Management

MIRIAM RUTH D. TUGAWIN
President and CEO

Filipino
59 years old

President and CEO since 2009
Educational Background
Bachelor Of Science in Social Work, University of the Philippines-Diliman
Master of Arts in Women and Development, University of the Philippines-Diliman

THERENCE G. BATULON
Vice President and Head of Operations & Marketing

Filipino
41 years old

Served the Bank since 1999 in various capacities as Bookkeeper, Accountant, Administrative Officer, Chief Accountant, Assistant Branch Manager, Branch Manager, Assistant Vice President and Head of Technical Support Unit
Educational Background
Bachelor of Science in Accountancy, St. Mary's University

OLIVIA G. GABUL, CPA
Assistant Vice President and Head of Technical Support Department/ Corporate Secretary

Filipino
42 years old

Joined the Bank in 2012 and served as Chief Accountant, assumed the position of Chief Compliance Officer in late 2012 to 2017
Educational Background
Bachelor of Science in Accountancy, University of Cordilleras

DIANA DEAN C. ATIENZA
Head of Internal Audit Department and Chief Compliance Officer

Filipino
38 years old

Joined the Bank in 2017 as Internal Auditor, assumed the position of Head Internal Auditor and Chief Compliance Officer in 2018
Educational Background
Bachelor of Science in Accountancy, St. Mary's University

Performance Assessments

Annual self-evaluation of directors is undertaken to allow them to assess their conduct in accordance with their duties and responsibilities as members of the Board, as well as their respective Board-level committees. Each director is required to accomplish at least two self-assessment sheets: (1) as director, and (2) as member of the Board, and another as member of a committee.

The Corporate Governance Committee shall convene annually to oversee the evaluation of the performance of the Board of Directors, Board-level Committees and Senior Management and shall ensure their continued effectiveness in contributing to the Bank's long term sustainability and success.

Orientation and Education Program

To ensure that BancoLagawe's directors remain adequately qualified, they receive regular updates on regulations, new laws and current market developments during board meetings to enable them to have a good understanding of both the business and regulatory environments. New directors receive appropriate orientation training and are required to attend a seminar on corporate governance following the BSP-prescribed syllabus.

Senior Management, including all Bank staff, likewise undergo different training programs on relevant subjects. BancoLagawe continues to develop its employees' training needs by identifying the type of training or seminar to be accorded to each of the employee. Each of the Bank's employee including Board of Directors and Senior Management Officers are provided with their corresponding needed trainings, training provider(s), projected date of training and the estimated costs for each training.

The trainings and seminars are summarized in the Annual Personnel Development Program of the Bank. The total costs under the Annual Personnel Development Program shall be part of the annual "Training and Seminar Expense" budget of the Bank.

Retirement and Succession Policy

Retirement Policy for Senior Management

A bank employee who has served the bank for at least five (5) years, shall retire upon reaching the age of sixty (60) and shall be entitled to retirement pay based on the following computation:

No. of Years in Service	Computation
5 to 9	Latest salary x 0.5 x no. of years in service
10 to 14	Latest salary x 1.0 x no. of years in service
15 to 19	Latest salary x 1.5 x no. of years in service
20 years and above	Latest salary x 2.0 x no. of years in service

Latest salary shall include the employee's basic salary, cost of living allowance, and tenure pay. An amount is being allocated by the bank periodically to fund the retirement plan. The Retirement Fund is being managed by a reputable insurance company who shall assist the bank in registering the program with the BIR.

Retirement Policy for the Board of Directors

The bank acknowledges the Stockholders' ultimate right to elect the directors. However, a director who ascertains that he/she is no longer fit and proper to perform the functions of a director shall refuse nomination or may opt to retire if already elected. Elected directors serve for a term of one (1) year and may be re-elected. There is no specific retirement age for members of the Board.

Succession Policy for the Board

The Corporate Governance Committee shall apply a due diligence to determine the suitability of every person who is being considered for appointment or reappointment as a director of the Bank based on his/her educational qualification, experience & track record, and every such person shall meet the 'fit and proper' criteria, as BancoLagawe may stipulate from time to time. Any appointment or re-appointment of a Director shall be subject to prior approval by the Board of Directors.

BancoLagawe keeps and updates a list of qualified candidates being considered for a director position. The candidates are being nominated by the principal stockholders of the Bank.

Succession Policy for Senior Management

Senior Management shall periodically review and consider the list of senior managerial personnel due for retirement/attrition within the year. It shall also consider the new vacancies that may arise because of business needs/up-gradation of Department(s)/Branch Office(s). Further, based on the recommendation of the Head of Human Resources, the Senior Management

1) Shall evaluate the incumbent after considering all relevant criteria like experience, age, health, leadership quality etc. and recommend to the Board whether the concerned individual (i) be granted an extension in term/service or (ii) be replaced with an identified internal or external candidates.

2) Shall identify the competency requirements of key positions, assess potential candidates and develop required competency through planned development and learning initiatives. The Senior Management may utilize the services of professional search firms to assist in identifying and evaluating potential candidates.

3) May recommend to the Board to appoint other suitable external candidate(s) as special recruitment in senior managerial level based on job roles and competency in order to provide a continuous flow of talented people to meet the organizational needs.

4) Where it is decided to appoint an external candidate, timely and planned steps shall be taken for selection of a suitable candidate so that the appointment is made

well before the retirement/relieving of the concerned officer to ensure the smooth transition.

5) The recommendation of the Senior Management shall be placed to the Board for approval. Head of Human Resources shall, from time to time identify high-potential employees who merit faster career progression to position of higher responsibility and formulate, administer, monitor & review the process of skill development and identify the training requirements.

6) Every member of the senior management team shall always endeavor to add capability in-house and mentor officials with potential working under him to handle his responsibility in his absence by exposing him to all aspects of work being handled by him.

7) In the event of any unexpected occurrence in respect of any member in the core management team, the next person as per the organization chart (as far as practicable) shall take interim charge of the position, pending a regular appointment in terms of the succession plan.

Remuneration Policy for Directors and Senior Management

The remuneration and incentives budget for the Board and Senior Management is approved annually by the Board of Directors. BancoLagawe's principle for compensating directors and officers follows best practices and procedures on the determination of remuneration levels depending on the Bank's particular needs. While it follows a salary grade scheme, the remuneration and incentives package takes into account the position, role, responsibilities and risks that the employee undertakes in behalf of the Bank.

Related Party Transactions

In accordance with the regulations, policies and guidelines on Corporate Governance issued by Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and other regulatory bodies, BancoLagawe recognizes the need to strengthen its policy on related-party transactions and other similar situations so as to prevent or mitigate abusive transactions with related parties and avoid risks of conflict of interest.

This is also in consonance with BancoLagawe's adherence to the highest principles of good governance as the bank subscribes to the philosophy of integrity, accountability and transparency in doing business.

Similarly, Philippine Accounting Standard (PAS) 24 *Related Party Disclosures* provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Policies

1. Bank's DOSRI and other related party transactions shall be allowed provided that these comply with applicable regulatory limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into, substantially on terms and conditions not less favorable than those with other customers of comparable risks.

2. If an actual or potential conflict of interest arises on the part of members of the Board, stockholders, and management, he/she is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction.

   Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.

   No Director may engage in any Board or Committee discussion or approval of any related party transaction in which he or she is a related party. However, such Director must provide to the Board or Committee all material information reasonably requested concerning the transaction.

3. Materiality threshold for related party transactions (RPTs), except DOSRI transactions, shall be set at P500,000.00 . RPTs that exceed the materiality threshold shall require approval from the Board of Directors. RPTs that fall below the materiality threshold shall be approved by the President & CEO except for transactions of his/her related parties which shall be elevated to the Board.

4. All DOSRI transactions shall require the approval of the Board of Directors.

5. As embodied in the "Whistle Blowing Policy", BancoLagawe encourages employees to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical or questionable RPTs. Any personnel, officers or directors who have been remiss in their duties in handling RPTs shall be subject to disciplinary actions with due process, as stated in the Bank's Code of Conduct.

Transactions Not Considered RPTs

Following transactions shall not be deemed related party transactions for purposes of this policy/ guidelines:

a) Executive Officer and Director compensation arrangements;

b) Transactions available to all employees in general, such as: deposit transactions, and in the future - credit card availments, regular trade transactions involving purchase and sale of securities traded in the active market; and

c) Transactions granted under the Bank's fringe benefit program

Guidelines & Procedures

1. All credit and non-credit Related Party Transactions go through the normal business processes of the Bank given the delegated discretion after due consideration to existing DOSRI regulations and SB limits.

2. On credit transactions, the Head of Credit Initiation and Management Section shall determine if a transaction is a related party transaction.

   The following information, to the extent relevant, with respect to the proposed Related Party Transaction should be disclosed in the evaluation:

   i A general description of the transaction/s including the material terms and conditions;

   ii. The name of the Related Party and the basis on which such person or entity is a Related Party;

   iii. The Related Party's interest in the transaction/s including the Related Party's position or relationship with, or ownership of, any entity that is a party to or has an interest in the transaction/s;

   iv. The total value of the proposed transaction and the share of the Related Party's interest in the transaction/s;

   v. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result or in connection with the proposed transaction; and

   vi. Any other material information regarding the transaction/s or the related party.

3. Non-credit transactions shall be evaluated by the Head of sections where the transactions will be processed.

4. Persons responsible for the evaluation of RPTs may ask guidance from the Risk Management & Audit Committee (RMAC) through the Chief Compliance Officer or Internal Auditor.

5. After going through the process, it shall be submitted / elevated to the proper approving authorities for ratification/ approval.

6. The Chief Compliance Officer shall prepare a monthly report of all related party transactions to the Risk Management and Audit Committee for the latter's information. Said committee shall be provided with all pertinent documents and material facts that support the transaction.

7. A Board resolution, as evidence of approval for DOSRI loans will be submitted within the prescribed period set by the BSP.

8. On a quarterly basis, the Chief Compliance Officer shall ensure submission of the required report to BSP using the existing report format.

In 2019, there were no material related party transactions of the Bank.

Internal Audit and Compliance Functions

Internal Audit Function

The internal audit is an independent, objective assurance, and consulting function operating within BancoLagawe (Lagawe Highlands Rural Bank) to examine, evaluate, and improve the effectiveness of risk management, internal control, and governance processes of the bank (BSP Cir. 871, Sec.). The internal audit activity adds value to the organization and its stakeholders when it provides objective and relevant assurance, and it contributes to the effectiveness and efficiency of governance, risk management, and control processes (IAA's Standards: Revised October 2010).

Authority and Independence

The internal Auditor requires organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

Independent Function: No conflict of interest allowed

Even though the IA may be formally part of the management structure of the bank, it does not participate in any management decision process or accept any responsibility in the execution of bank activities. This organizational structure is designed to allow the IA to be independent and to effectively accomplish its purpose.

To permit the rendering of impartial and unbiased judgment essential to the power conduct of audits, the IA will be independent of the activities it audits. The IA will not have direct responsibility for, or authority over, any of the activities reviewed and will not engage in activities which should normally be reviewed by internal auditor. This directive will not prelude the IA's proactive involvement with management in planning processes, committees, or special assignments that have been approved by both the President/CEO and the Risk Mangement and Audit Committee (RMAC).

The IA may advise management (must, when it is about compliance, risk management, internal controls) and the Board of Directors (BOD) regarding how to better execute their responsibilities. But it remains independent of the activities it controls.

The internal audit review and appraisal process does not in any way relieve other persons in the bank of the responsibilities assigned to them. Responsibility for complying with policies and procedures as well as correcting deficiencies rests with the respective employees and management.

Hierarchical Independence: Independence reporting line

The primary customer of the IA is the entity charged with oversight of management's activities. This is typically, the RMAC, a sub-committee of the BOD. To provide hierarchical independence, the IA reports to the RMAC Chairman as to the performance of its duties.

The definition (and regular revision) of the scope of the function should be agreed between the IA and the RMAC. The IA's annual work plan, which for practical reasons must be discussed between the auditees, is subject to the approbation of the RMAC and BOD.

The internal rules and practices of the IA provided for in the Internal Audit Manual are of the responsibility of the Internal Auditor.

Independent Status: Guarantees against retaliations

The independence of the IA in the performance of its duties should be guaranteed in the staff rules. The RMAC should have sole competence for the final decision on appointment and dismissal of the IA, and for its remuneration, activity appraisal, and career advancement. The IA is liable to disciplinary action but only with the concurrence of the RMAC and express approval of the BOD. This could happen if it is negligent in the performance of its duties.

Independent communication right

The IA reports directly to the RMAC and the BOD. There should be a report from the IA to each ordinary RMAC meeting and if deemed necessary to the BOD. Such reports should be addressed directly to the RMAC Chairman with parallel copy to the President/CEO. However, the IA in the performance of its daily work communicates and liaises with the President/CEO and the staff of the bank.

Independent Budgeting

Although the Internal Auditor is paid by the bank, the human resource budget of the IA, in particular, should be protected from interference from the audited bank. The typical risk is that the audit's budget subject to the approval of the Vice President and President/CEO is a source of potential interference or friendly pressure to self-limit the Internal Auditor's draft budget, in advance of the normal budgeting process of the bank.

Access to information

Information is of key importance to organize, prepare, and perform internal audits. The IA will have full, free, and unrestricted access to all activities, record (in both paper and electronic format), property and personnel necessary to accomplish the stated purpose. Documents and information given to the IA will be handled by the IA in the same prudent manner as by those employees normally accountable for them, with stringent regard for safekeeping and confidentiality.

Reasonable restrictions would be limited to things such as personal information in personnel records such as health information. Unduly restricted access to information is a major impediment to the IA and indicates that the bank is not truly supportive of the IA's mandate and the bank's commitment to sound governance should be questioned.

Professional Competence

The Internal Auditor is a professional and competent individual who collectively has the knowledge and experience necessary in the conduct of an effective internal audit on all areas of the bank's operations. The skill set of the internal audit staff shall be complemented with appropriate audit methodologies and tools as well as sufficient knowledge of auditing techniques in the conduct of audit activities.

Due Professional Care and Professional Ethics

The Internal Auditor shall act with integrity in carrying out his duties and responsibilities. He should respect the confidentiality of information acquired in the course of the performance of his duties and should not use it for personal gain or malicious actions. The Internal Auditor shall avoid conflicts of interest. Internally-recruited Internal Auditor shall not engage in auditing activities for which he has previous responsibility before a one-year "cooling-off" period has elapsed. The Internal Auditor shall adhere at all times to an established Code of Ethics for Internal Auditors.

Duties and Responsibilities

1. Prepare and submit an annual audit plan to the board for approval
2. Prepare and submit monthly audit report to the RMAC for approval
3. Report audit findings to the RMAC/Board during the monthly meetings
4. Conduct periodic audit on the implementation of internal controls, policies on all aspects of operation, regulations of the Bangko Sentral ng Pilipinas (BSP), Philippine Deposit Insurance Corporation (PDIC), Bureau of Internal Revenue (BIR) and other regulatory agencies
5. Supervise and maintains the bank's system of internal control and ascertains that it is adequate and functioning properly.
6. Examine and recommends the establishment of appropriate internal controls and appropriate measures to ensure that established policies, procedures and controls are followed.
7. Perform continuous program of verification and conducts his examination in such a way as to ensure management of the general reliability and validity of all reports.
8. Assess the accuracy, reliability and effectiveness of the management and financial information system, including the electronic information system.
9. Conduct periodic confirmation of account with bank depositors and borrowers
10. Access/obtain documents that are necessary to performing the duties and responsibilities of an Internal Auditor.
11. Performs such other functions as may be assigned by the Board in connection with the examination, evaluation and appraisal of the bank operations.

Nature of Work

The IA must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

Governance

The IA must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics within the bank
- Ensuring effective organizational performance management and accountability
- Communicating risk and control information to appropriate areas of the bank
- Coordinating the activities of and communicating information among the board, external and internal auditors and management.

The IA must evaluate the design, implementation, and effectiveness of the bank's ethics-related objectives, programs, and activities. It must assess whether the information technology governance of the bank supports the bank's strategies and objectives.

Risk Management

The IA must evaluate the effectiveness and contribute to the improvement of risk management processes. It must evaluate risk exposures relating to the bank's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency operations and programs;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures, and contracts

The IA must evaluate the potential for the occurrence of fraud and how the bank manages fraud risk.

During consulting engagements, internal auditor must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. Internal auditor must incorporate knowledge of risks gained from consulting engagements into their evaluation of the bank's risk management processes.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

Control

The IA must assist the bank in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

The IA must evaluate the adequacy and effectiveness of controls in responding to risks within the bank's governance, operations, and information system regarding the:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;

- Safeguarding of assets;
- Compliance with laws, regulations, policies, procedures, and contracts.

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the bank's control processes.

Scope

The scope of IA shall include:

- Examination and evaluation of the adequacy and effectiveness of the internal control systems;
- Review of the application and effectiveness of risk management procedures and risk assessment methodologies;
- Review of the management and financial information systems, including electronic information system and electronic banking services;
- Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
- Review of the systems and procedures of safeguarding assets;
- Review of the system of assessing capital in relation to the estimate of organizational risk;
- Transaction testing and assessment of specific internal control procedures; and
- Review of the compliance system and the implementation of established policies and procedures.

Compliance Function

Directing the compliance officer and concurrently the internal auditor to function mainly as a compliance officer

1. The Compliance Officer who is concurrently the Internal Auditor shall be directed to **function mainly** as the compliance officer of a bank, until such time that the two functions are segregated. (*BSP Circular 598*)

2. The Compliance Officer will directly report to the Board of Directors. During his/her tenure, s/he may be removed/ transferred only with the approval of the Board and through an internal administrative procedure in which his negligence in discharging compliance function or his serious acts of omission and commission in other financial or administrative matters is established and recorded in a transparent manner.

Independence of compliance function

1. The sole task of the Compliance Officer is to carry out compliance function for management of the bank's compliance risk. The Compliance Officer will function in an independent environment and should be kept away from any conflict of interest with other functions of the bank i.e. the staff of Compliance Officer will perform only compliance responsibilities. Compliance Officer should not be assigned with any other operative functions of the bank, even if temporary.

2. The Compliance Officer and his/her staff will have the right on its own initiative to communicate with any staff member and obtain access to any records or files necessary to enable it to carry out its responsibilities. It will also have the right to conduct review/ investigation of possible breaches of the Compliance Program and to request assistance from specialists within the bank (I.T Specialist, Legal Officer) or engage outside experts to perform this task under advice to the Board of Directors or the Compliance Officer in his discretion finds it appropriate.

3. The Compliance Officer and his/her staff will be free to report to the Board of Directors or the Risk Management and Audit Committee (RMAC), on any irregularities or possible breaches disclosed by its investigation without fear of disfavor from management or other staff members.

Scope of compliance function

The Laws, rules and standards applicable to banking generally cover matters such as observing proper standards of market conduct, managing conflicts of interest, settling Govt. taxes, treating customers fairly and ensuring the suitability of customer advice. The following statutory, regulatory and internal guidelines, contractual guidelines and codes govern the banking business on the basis of the above principles:

Statutory Guidelines:

R.A 7653 “The New Central Bank Act
R.A 9160 Anti-Money Laundering Act of 2001
R.A 9178 An Act to promote the establishment of Barangay Micro Business Enterprises (BMBEs), providing incentives and benefits therefor, and for other purposes
Magna Carta for Small Enterprise
National Internal Revenue Code of the Philippines.
Act No. 3135,Mortgage Law
Chattel Mortgage Law (Act No. 1508)
Republic Act No. 3765, The Truth in Lending Act
Labor Code of the Philippines
Social Security System (SSS)
Republic Act No. 9501 or the Magna Carta for Micro, Small and Medium Enterprises.
The Agri-Agra Reform Credit Act of 2009".
Republic Act No. 1405 (Law on Secrecy of Bank Deposits),
Barangay Micro Business Enterprises (BMBE's) Act of 2002."
Corporation Code of the Philippines
Implementing Rules and Regulation and amendments of the above statutes.
Any other Act related to banking that is in force at present or may come into existence in future

Regulatory Guidelines

BSP Manual on Regulation of Banks.
Guidelines issued by the Bangko Sentral ng Pilipinas from time to time.
Guidelines issued by the Rural Bankers Association of the Philippines from time to time
Guidelines issued by Securities and Exchange Commission from time to time.

Guidelines issued by PDIC from time to time

Guidelines issued SSS from time to time.

Guidelines issued by the PhilHealth from time to time
Guidelines issued by the BIR from time to time.

Philippine Institute of Certified Public Accountants guidelines on Accounting Standards

Any guidelines/ instructions issued from time to time by other Gov't agencies that affect the Bank.

Internal Guidelines:

Code of Conduct applicable to staff members.

Guidelines issued by the Board of Directors from time to time on bank's business.
BancoLagawe Manual of Operation, 2009 edition.
President and CEO's issued directives.

Contracts:

LBP Rediscounting Contract
Others

The aforesaid statutory, regulatory, contractual guidelines and internal guidelines shall be the scope for operation of the compliance function in the bank. The Board of Directors may modify the scope as deemed fit to widen or strengthen the compliance function. The Compliance Officer will identify the functions of the bank that fall under each guideline and also will assess the risk level of each function.

Board supervision

The Board of Directors/RMAC will be responsible for putting in place this compliance function policy in the bank for managing compliance risk. It will also oversee implementation of the policy by Compliance Officer. It will take quarterly review of the compliance function and also meet the Compliance Officer annually for assessment of the effectiveness of compliance policy and issue directions for corrective and progressive measures, if necessary.

Top management responsibilities

1. Top management will be responsible for establishing this compliance function in the bank. They will ensure the following in implementation of the compliance function:

    a. They will identify and assess the compliance risk facing the bank with the assistance of Compliance Officer and formulate plans to manage them.
    b. They will resolve the compliance issues effectively and expeditiously with the assistance of Compliance officer.
    c. They will make prompt reporting to the BOD/RMAC on any material compliance breaches/ failures.

2. Quarterly reviews will be submitted to the BOD/RMAC in such a manner as to assist them to make an informed judgment on whether the bank is managing its compliance risk effectively.

3. Top Management of the bank will be expected to comply with laws and regulation that affects their function.

4. Accountability will be examined for all compliance breaches/ failures and appropriate disciplinary action will be taken against the erring staff members.

Compliance Officer's responsibilities

1. Within the scope set for the compliance function, the Compliance Officer will have the following duties and responsibilities with all sincerity and integrity for achieving the objective of the compliance function:

    a. The CO will identify the business functions of the bank that fall under each statutory and regulatory guideline.

    b. The CO will assess the level of compliance risk in each business line, product and process into High, Medium and Low Risk and accordingly formulate proposals for mitigation of the risk.

    c. The CO will ensure prompt dissemination of statutory and regulatory guidelines and instructions for compliance to the Head Office unit, Branches/Offices and closely monitor the compliance of the guidelines.

2. Compliance Officer of the bank will be responsible over all for coordinating the identification and management of the bank's compliance risk and supervising the activities of other compliance function staff. He will ensure the following:

    a. Identify and assess the compliance risk through all business levels of the bank and submit plans to manage the risk to the BOD/RMAC.

    b. Submit a report to the BOD during BOD regular Board meeting on the level of compliance risk.

    c. Promptly report to the Board of Directors/RMAC instances of all material compliance failures which may attract significant risk of legal or regulatory sanctions, financial loss or loss of reputation.

    d. Act as the nodal point of contact between the bank and the Bangko Sentral ng Pilipinas.

Compliance officer's participation in board committees

1. The Compliance Officer will be a member of the Risk Management and Audit Committee.

2. S/He may be an invitee to the Finance and Investment Committee, Corporate Governance Committee, Marketing Committee, or Building and Premises Committee.

Resources – role of human resources committee

1. It will be the responsibility of the Human Resources Committee to provide the Compliance Function with sufficient and appropriate staff to ensure that the compliance risk within the bank is managed effectively. It will identify the staffs that preferably have knowledge of law, accountancy and information technology and also adequate practical experience in various business lines and audit/inspection function. The compliance staff should have sound understanding of compliance laws, rules and standards and their practical impact on the banks operations.

2. In order to keep the compliance staff up-to-date with developments in the areas of banking laws, rules and standards, the compliance officer and staff should attend relevant seminars or trainings if available.

Role of bank officers, managers and staff

1. The bank officers, managers and staff will put in place systems for meticulous compliance of statutory, regulatory and internal guidelines by all the concerned under their control while carrying out the business operations. Any breaches/ failures of compliance noticed by them in their area of operations should be promptly reported to the Compliance Officer or his/her staff. The Compliance Officer and his/her staff will scrutinize such breaches/failures of compliance and guide the functional departments with measures for rectification and prevention.

2. The officers, managers and staff should extend their cooperation to the Compliance Officer and his staff for the success of compliance functions in the bank. They should promptly submit the information requested by the Compliance Officer and his/her staff for their assessment of compliance. They should also strictly follow the instructions and guidelines issued by the Compliance Officer on compliance matters. A cooperative working relationship between Compliance Officer and his staff and would help to identify and officers, managers and staff manage compliance risks at an early stage.

Compliance function review

The compliance Function Program should be reviewed annually covering the following aspects:

a. Compliance failures if any during the preceding year and consequent losses and regulatory action and also steps taken to avoid recurrence of the same.
b. List of all major regulatory guidelines issued during the preceding year and steps taken for implementation.

c. Independence of compliance function.
d. System of internal control to minimize compliance risk.
e. Progress in rectification of significant deficiencies pointed out in the internal audit, external audit and BSP \Examination reports and position of implementation of recommendations made there in.

Implementation

Compliance function is a preventive as well as a corrective remedy put in place for safeguarding the bank from compliance risks that may cause financial loss by way of penalties and compensations or reputational damage which bank cannot afford in the current highly charged and competitive environment among banks. The compliance function shall continue to be one of the key elements of our Corporate Governance Philosophy. The guidelines of this policy shall be implemented in the bank with immediate effect in true spirit.

Internal Control Responsibilities of the Board

The Board is responsible in setting a control environment that:

a. Ensures the Bank is properly and effectively managed and supervised;

b. A management that actively manages and operates the corporation in a sound and prudent manner;

c. The organizational and procedural controls supported by effective management information and risk management reporting systems; and

d. An independent audit mechanism to monitor the adequacy and effectiveness of the corporation's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets and compliance with laws, rules, regulations and contracts.

e. The minimum internal control mechanisms for the performance of the Board's oversight responsibility are as follows:
   - Definition of the duties and responsibilities of the CEO who is ultimately accountable for the corporation's organizational and operational controls;
   - Selection of the person who possesses the ability, integrity and expertise essential for the position of CEO;
   - Evaluation of proposed senior management appointments;
   - Selection and appointment of qualified and competent management officers;
   - Review of the corporation's human resource policies, conflict of interest situations, compensation program for employees and management of succession plan

The scope and particulars of the systems of effective organizational and operational controls may differ depending on among others the following factors: nature and complexity of the business and the business culture; volume, size and complexity of transactions; degree of risks involved; degree of centralization and delegation of authority; extent and effectiveness of information technology; and extent of regulatory compliance.

The Board of Directors shall establish an internal audit system that can reasonably assure the Board, management and stockholders that key organizational and operational controls are faithfully complied with. The Board appoints an Internal Auditor to perform the audit function, and require him to report to a level in the organization that allows the internal audit activity to fulfill its mandate. The internal auditor shall be guided by the international standards of professional practice of internal auditing.

Dividends

As soon as reasonably practicable after the end of each Financial Year, the Board shall determine the available distributable profits of the Bank for that period. The Board shall, in making that determination, take into account the reasonable financial requirements of the Bank for the following twelve (12) months. The Stockholders will cause the Bank to pay such dividends out of its distributable net earnings as are consistent with its operating and investment plans as approved by the Board. The payment and level of any dividend will be determined by the Board and approved by the Stockholders at a general meeting of Stockholders. In determining the amount of dividends to be distributed for each fiscal year, the Board will take into account the debt-to-equity ratio and the financial operating needs of the Bank.

Corporate Social Responsibility

The Bank practices corporate social responsibility in two ways. First, in the normal course of its business, the Bank is operating in ways that enhances the economic, social and environmental aspects of the community – through the kinds of products and services that it offers, its policy of inclusiveness, its policy of hiring locals, and by giving priority to serving the agricultural, salaried and small business sectors.

Second, as part of its commitment to the development of the local community, the Bank, in partnership with Saint Mary's University of Bayombong, Nueva Vizcaya, is implementing a scholarship program for deserving indigenous youth to be able to finish their college education. By doing this, the Bank hopes to contribute to the development of future leaders of the community who will contribute to the development of the local economy.

Consumer Protection Practices

Roles and responsibilities of oversight bodies

Board of Directors

1. The Board of Directors (BOD) has the ultimate responsibility for the level of customer risk assumed by BancoLagawe. Accordingly, the Board approves the Bank's overall business strategies and significant policies, including those related to managing and taking customer risks.

2. The Board of Directors takes steps to develop an appropriate understanding of the customer risks the Bank faces through briefings from auditors and experts external to the organization.

3. The board of directors provides clear guidance regarding the level of customer protection risk acceptable to the Bank and ensures that senior management implements the procedures and controls necessary to comply with the policies that have been adopted.

4. The BOD is responsible for developing and maintaining a sound Customer Protection Risk Management System that is integrated into the over-all framework for the entire product and service life-cycle.

5. Each director has a level of knowledge commensurate with the nature of his or her role in managing the Bank's customer protection program. This can be done through attendance to trainings and seminars, interaction with experts and regulatory personnel knowledgeable to this line.

6. The Board reviews and approves appropriate customer protection policies to limit risks inherent in the Bank's significant business lines, activities, or products, including ensuring effective oversight of any third-party providers that provide products and services for the Bank.

7. The Board periodically reviews and approves customer protection risk exposure limits to conform to any changes in the Bank's strategies and addresses the extent of protection assumed by the customers when new products are introduced.

Senior Management

1. Senior management is responsible for implementing a program to manage the customer compliance risks associated with the Bank's business model, including ensuring compliance with laws and regulations on both a long-term and a day-to-day basis. Accordingly, management should be fully involved in its activities and possess sufficient knowledge of all major products to ensure that appropriate risk controls are in place and that accountability and lines of authority are clearly delineated.

2. Senior management also is responsible for establishing and communicating a strong awareness of, and need for, effective customer protection risk controls and high ethical standards.

Board of directors and senior management

1. The BOD and Senior Management periodically review the effectiveness of the Customer Protection Risk Management System (CPRMS) including how findings are reported and whether the audit mechanism in place enable adequate oversight.

2. The BOD and Senior Management must ensure that sufficient resources are devoted to the customer protection program.

3. They must ensure that FCP weaknesses are properly addressed and corrective actions are taken in a timely manner.

4. The Board and Senior Management are sufficiently familiar with and are using adequate record keeping and reporting systems to measure and monitor the major sources of customer risk to the Bank.

5. The Board and Senior Management ensure that the depth of staff resources is sufficient to operate and manage the Bank's customer protection activities soundly and that employees have the integrity, ethical values, and competence that are consistent with a prudent management philosophy and operating style.

6. The Board and Senior Management anticipate and respond to customer protection risks that may arise from changes in the Bank's competitive environment and to risks associated with new or changing regulatory or legal requirements.

BancoLagawe recognizes the importance of measuring risks in relation to the degree and extent of risks in financial customer protection. In this view, the Bank has established two (2) approaches in measuring the effects of failure to follow the required protection standards or principles, namely;

The Bank classifies its risk according to probability or the likelihood of occurrence of the risk:

RARE – the happening of the customer protection risk is not expected to come soon;
LIKELY – the happening of the customer protection risk is not expected at the moment;
CERTAINLY – the happening of customer protection risk is definite or imminent.

The Bank classifies the level of customer protection risks accordingly:

LOW – the impact of customer protection risk to the Bank is nil or minimal;
MEDIUM - the impact of customer protection risk to the Bank is moderate or within the tolerable level of the Bank;
HIGH – the impact of customer protection risk to the Bank is above what the Bank's tolerable limit and has adverse effects on the reputation.

Risk analysis and evaluation

Based on existing financial customer protection standard risks as identified and profiled by the Bank, identified risks were classified as follows:

The effects of lack of oversight supervision by BOD and SM is "rare" to happen since they are very serious in addressing customer protection issues by coming out of policies and procedures and developing the Customer Assistance Management system, thereby, impact of the risk to the Bank and the customer would be low.

Customer protection risk control, techniques and strategies

Oversight functions

BancoLagawe has professional and experienced members of the Board of Directors and senior management. Nevertheless, the Bank provides for strategies and techniques in order to avoid the identified risks and their effects to the customer and the Bank by the following preventive measures:

Disclosure and transparency

In order to avoid the risks related to disclosure and transparency, the Board of Directors and Senior Management issued the following strategies and control measures to avoid the risks:

a) The Bank must conduct regular trainings/seminars on a per schedule basis to all its employees in order for the latter to be familiarized with current products and services;

b) All employees in charge should explain the terms and conditions related to a certain product and service prior to signing up the relationship contract to include corresponding policies and procedures, right and responsibilities of the clients;

c) The Marketing Head of the Bank must see to it that brochures, flyers advertisement materials are updated and does not contain adverse or deceptive information. The information is clear, accurate and easily understood by the Bank's clients.

Conflict of interest

BancoLagawe resolves and prevents conflict of Interest among the customers and bank employees through the following measures:

a) A director should inhibit in the approval process of own loan;

b) When a borrower is the subject of credit investigation and property appraisal by the Bank's employee who is closely associated to the borrower, the Bank assigns the job to another CI/Appraiser;

Protection of client information

Bank's strategies are to put prevention and control measures in order to protect the client's information are enumerated hereunder:

a) The Bank must have well defined IT processes and procedures and designated IT Department to handle the entire system;

b) All computers being utilized for storing and retrieving of data and information of customer must have an automatic log-off and log-in;

Fair treatment

BancoLagawe sees to it that fair treatment is provided to all its customers by employing the following preventive measures:

a) Loan products must be priced based on competition lending rate after surveys are conducted;

b) The Bank should involve its customers in designing its loan and deposit products by getting their opinion or ideas through the suggestion box system;

c) The Bank must focus on the capacity of the customer and not rely mainly on collateral or guarantees;

Remuneration structure

In order to encourage responsible conduct of business by bank employees, fair treatment and avoid conflict of interests, the Bank must:

a) come up with an incentive scheme to reward productive employees in soliciting deposits or loans, collection of past due and previously written-off loan accounts;

b) disclose to customers that bank employees receive incentives from soliciting their accounts;

Effective recourse

In order for Management to address properly and timely the complaints or requests of customers, the Bank has come out with preventive measures:

a) The Bank must establish a customer care center that will receive and act on customer inquiries, complaints or requests;

b) The Bank must establish its own Customer Assistance Management System which encompasses policies and processes such as; processing time, responding to customers, and customer access like setting up dedicated phone line or help-desk for customer response;

c) The Bank should provide a poster showing the information on how to file a complaint/request visible at the lobby or website of the Bank;

Financial education and awareness

In order to address the identified risks, the Bank should perform the following preventive and control measures under financial education and awareness standard:

a) The Bank must initiate financial education to empower customers provide knowledge and skills and understand the information from the products and services offered by the Bank;

b) The Bank must develop financial awareness program which could improve the knowledge and understanding of customers regarding their rights and obligations and to make an informed decisions in availing Bank's products and services. The program must meet the literacy level of its customers such that features of products and services should be translated to local dialect of the customers, if needed;

Customer protection risk monitoring and management information system

Effective risk monitoring requires the Bank to identify and manage all significant risk exposures, including compliance risk. Identifying such risk throughout its operations is important to ensure that the Bank modifies its compliance management program as needed to respond to any internal or external changes that affect the institution.

Risk monitoring activities are supported by appropriate MIS that provides senior management and directors with timely information on the customer protection compliance risk exposure of the Bank, as well as with regular and sufficient information for line managers engaged in the day-to-day management of the Bank's activities.

The Bank uses Management Information System to organize and report data to senior management. Customer protection compliance issues of the Bank are included in the IT System and also in a Register or logbook. Internal Auditor ascertains whether the MIS is helpful to ensure that relevant information gets escalated from the branches to the compliance function and then to senior management.

Internal Auditor discusses with senior management the Bank's approach and methodology for identifying customer protection risk. Management should be able to articulate its understanding of customer protection compliance risk. Comprehensive reporting and monitoring systems allows for more frequent reporting, tighter monitoring of complex compliance activities, and the aggregation of risks on a fully consolidated basis across all business lines and activities.

Customer protection risk reporting

Reports of the Bank for both internal and external are prepared and presented in accordance with the Customer Assistance Management System (CAMS) of the Bank.

Internal reporting refers to the reports prepared by the Customer Assistance Officer (CAO) and submitted to the Head, Customer Assistance Officer which is being summarized and actions are being recommended to the Senior Management or Board of Directors.

These reports are presented to the SM and BOD on a monthly basis and reported to the BSP (external) on a quarterly basis within one (1) month after the cut-off period of the preceding month.

Internal controls

In evaluating the adequacy of the BancoLagawe's internal controls and audit procedures pertaining to customer protection, the Internal Auditor/s consider/s whether the following conditions are met.

1) The system of internal controls is appropriate for the type and level of risks posed by the nature and scope of the Bank's customer protection activities.

2) The Bank's organizational structure establishes clear lines of authority and responsibility for monitoring adherence to financial customer protection policies, procedures, and limits.

3) Reporting lines provide sufficient independence of the control areas from the business lines and adequate separation of duties throughout the organization.

Specifically, the internal controls applicable to customer protection include:
1) A review of Branch's documentation and filing of customer complaints;

2) Test the process of Branch's complaint mechanism and system;

Financial consumer protection policies & procedures

BancoLagawe has policies and procedures to address the different identified risks of financial customer protection. These are in-placed in different standards to protect the customer during the life-cycle of his/her relationships with the Bank. They are embedded in different aspects of operations of the Bank as emboldened either in Bank's manuals, forms, advertisements, websites or posters installed at the lobby or other places as the Management deems fit. Such policies and procedures are enumerated and explained hereunder:

Oversight bodies

Policies

a) The Risk Management and Audit Committee/Board of Directors (BOD), shall oversee the implementation of the financial customer protection program of the Bank;

b) The Senior Management shall implement the policies and procedures of this Manual;

c) The Senior Management shall see to it that complaints are reported on regular (monthly) basis;

Procedures

a) *Board of Directors/Senior Management*

1) Approves the Financial Customer Protection program of the Bank.
2) Along with No. 1), approves the composition of the Customer Assistance Group and issuing a memorandum appointing the Consumer Assistance Officers (CAO) and the Head, Consumer Assistance Officer (HCAO). This is reflected in the Consumer Assistance Management System (CAMS) of the Bank.

b) *Head, Consumer Assistance Officer (HCAO)*

1) Cascades the program to all bank employees through training.

2) Retrieves reports from Customer Service Assistants (CSAs) who are designated as Customer Assistance Officers;

Disclosure and transparency

a) Management, through its Branches, shall provide up to date information about the Bank's loans, deposit products and other services to customers. This information shall be accessible over the counters, with clear, simple to understand statements, accurate or not misleading information and include any potential risks for the customers. It shall include the rights and responsibilities of the Bank and the customer, including the mechanism for either party to end the banking relationship, such as; termination, pre-termination, full payment, as well as details of fees, pricing and any potential penalties that the customer may incur.

b) Key information shall be explained by the Bank's front employees to the customers as deemed necessary The Bank's terms and conditions in all its products and service shall be characterized by the following, to wit:

1) Must be concise.
2) Must be easily understandable or presented in a manner that facilitates customer's comprehension, such as using local dialect.

c) Prior to signing the contract of obligation or contract of deposit, the Bank personnel shall explain in full their terms and conditions and the regulatory requirements, such as; payment of real estate tax, comprehensive insurance on improvements subject to collateral, among others, surrender of passbook or time deposit certificate in case of termination of account on affidavit of loss for that matter;

Procedures

a) Customer Service Assistants (CSAs)

1) Greet the customer; asks what can the Bank do for the client; provides brochure/flyer to deposit/loan applicant;

2) Interviews the customer. Determines the banking needs, for example, whether deposit to be offered is regular or time deposit; for loan account, whether borrower needs a lower or higher principal loan, short-term or long-term repayment, the customer is particular to interest rate, among others;

3) Explains the terms and conditions and policies related to product/service to be availed by the customer including but not limited to term of deposit/loan, interest rate, service charges, penalties, etc.;

4) Explains to the customer that any changes in interest rate on loans or deposits shall be visibly shown in "standees" or posters located at the lobby of the branch.

Conflict of interest

Policies

The Bank has existing policies pertaining to conflict of interest involving customer service as follows:

a) In granting loans to DOSRI, processing of loan should be conducted at arm's-length transaction, i.e., terms and conditions being applied to customer are similarly applied to DOSRI, such that if the loan is a Director, the latter shall inhibit in the approval process;

b) The Bank should inform the customer for any direct or indirect claim (lien) by a third party, including bank employees, to a ROPA which is the subject of sale to the client;

c) No employee, director or officer of the Bank should accept commission or incentive arising from insuring a customer to accredited insurance company. Instead, all commissions or incentives which will be derived from insuring the life of borrowers shall be recorded in the books of accounts of the Bank; and

Procedures

The minimum procedures that the Bank will undertake shall be as follows:

<u>DOSRI LOAN</u>

a) *Board of Directors*

1) Board of Director concerned inhibit from the deliberation of loan;

2) Review the application/files/documents and approve/disapprove the loan;

3) Prepares Board Resolution for the approval of DOSRI Loan;

b) *Credit Management Department*

1) Processes for the release of the DOSRI Loan.

2) Prepares DOSRI Loan and Other Accommodation Report together with Board Resolution for transmittal to BSP.

Protection of client information

Policies

a) For Information Technology (IT) concerns, the following minimum policies shall be in place in addition to provisions under the IT Risk Management Manual:

The IT Specialist shall directly supervise all IT concerns of the Bank;

1) Bank shall have a manual of IT policies and procedures and control administration concerning IT risks;

2) Only authorized users shall be allowed to access the computer system dedicated to the storage of data and information of customers within their respective jobs/tasks;

b) For personnel administration the policies should include:

1) The HR Officer shall orient all employees on their first day that includes the code of conduct in customer service.

2) All employees, probationary or regular, shall sign an employment contract which include a provision to strictly observe security and confidentiality of customer information;

c) All brochures, flyers or information posted through monitor of ATM, if any, and website shall contain instructions for the customer to follow in order to protect their deposit/loan account with the Bank;

Procedures

a) *IT Officer/Specialist*

1) Reviews the computerized system of customers' process flow of information to determine if there are data which are utilized by non-users;

2) Installs automatic log-off, log-on, possibly 5-minute after inactivity, to all computer users of customer information who do not have this protection;

b) *HR Officer*

1) Provides all employees personnel handbook which contain policies on customer service and protection of client information;

2) Prepares and implement training plan for all employees with priority given to employees who have direct face-to-face contact with customers;

c) *Operations Head/Marketing Department*

1) Checks the existence of provisions for customer protection in all brochures, flyers or websites.

d) *Chief Compliance Officer*

1) Assesses compliance to customer protection standard;

2) Reports any deviation or risk area to the Board of Directors, through the Risk Management and Audit Committee (RMAC);

3) Monitors compliance of branches to noted deviation or risk area.

e) *Internal Auditor*

1) Reviews the documents and process to determine the efficiency and adequacy of policies related to protection of client information;

2) Reports audit findings, exceptions or weaknesses of policy to the Board of Directors through the Risk Management and Audit Committee (RMAC);

f) *Board of Directors/Risk Management and Audit Committee (RMAC)*
1) Provides action on reported Bank's weaknesses on client protection.

Fair treatment

Policies

a) It shall be an integral part of the culture of the Bank for its employees to deal professionally, honestly and fairly to its customers.

b) All employees shall provide special care and attention to customers with special needs and physical defects.

c) The Bank Management shall ensure that the products and services offered are advantageous, appropriate, helpful and suitable to the banking needs of its customers.

Procedures

a) *Branch Manager/Customer Service Assistants*
1) Asks the customer to accomplish application for new accounts (deposit) or application for loan and allow the client to certify the given information;

2) Informs the customer that the Bank will conduct verification and provide the proper services based on the given information;

3) Explains to the borrower that the information may be shared with other financial institution(s) or individuals with whom he/she may give written consent or by any order of a competent court;

4) Manager conducts regular branch meetings to cascade important policies and procedures on customer protection to the members of the branch including disciplinary actions to be imposed in case of customer mistreatment, serious infractions or harassment.

b) *HR Officer*
1) Checks the employee performance evaluation form if it contains customer protection that focus on quality service as one of its parameters;

2) Cascade to all employees that such parameter shall be part of the annual performance evaluation;

c) *Senior Management/Corporate Governance Committee*
1) Approves the Imposition of disciplinary action for breach of customer protection and services by employees.

Remuneration structure

Policies

a) For transparency, employees may disclose the remuneration structure or incentive scheme to customers when making solicitation of loans or deposits. This can be disclosed only when customers initiate the inquiry and should be handled in a tactful manner.

b) A Bank employee who has direct face-to-face contact with customers shall be evaluated, in addition to their current job performance, based on the following:

1) customers' satisfaction (in terms of number of cases settled /served);

2) compliance with regulatory requirements, best practices guidelines, and Code of Conduct in certain principles related to best interests of customers,;

Procedures

a) Branch Manager/Customer Service Assistants

1) Clarifies with the customer the presence of incentive scheme in the solicitation of products and services, if known to the customer;

2) Assures the customer that the incentive scheme is not related to interest rate or service charges imposed on the customer.

b) HR Officer

1) Checks the employee performance evaluation if it contains remuneration structure parameters;

2) Provide training to all front-liner personnel who handle customer service

c) Customer Assistance Officer (CAO)

1) Conducts investigation for any complaint against an employee; and

2) Provides results to the Head CAO.

d) *Senior Management*

1) Approves or recommends the imposition of disciplinary action for breach of customer protection and services by employees.

Effective recourse

Policies

a) The Senior Management shall provide financial customers efficient means for resolving complaints with their financial transactions by putting in-place mechanisms for complaint handling and redress.

b) The Senior Management shall establish an effective Customer Assistance Management System (CAMS) for approval by the Board of Directors.

c) The CAO shall maintain an up-to-date log and records of all complaints from all customers subject to the complaints procedure. The minimum contents of logbook are as follows:

- Details of each complaint
- Date of complaint was received
- Summary of Bank's Response
- Details of any relevant correspondence or records
- Actions taken to resolve each complaint
- Date of complaint was resolved

d) The Head, CAO shall conduct an analysis of patterns of complaints from customers on a regular basis including investigating whether complaints indicate an isolated issue or widespread issue for customers.

e) All Staff handling complaints should have appropriate experience, knowledge and expertise.

Procedures

a) *Customer Assistance Officer*

1) Maintains an up-to-date log and records of all complaints from all customers subject to the complaints procedure;

2) Prepares summary of complaint report; and

3) Forwards summary of complaint report to the Head CAO.

b) *Chief Compliance Officer/Head CAO*

1) Undertakes an analysis of patterns of complaints from customers on a regular basis including investigating whether complaints indicate an isolated issue or widespread issue for customers; and

2) Presents Complaint Analysis Report to the Senior Management and forwards to the RMAC for review and recommend actions for approval by the Board of Directors.

c) *Senior Management*

1) Reviews the summary of complaint report; and

2) Acts on complaints if the action is within the authority. Formulates policy and/or recommends actions to be approved by the Board of Directors if the complaint/request requires it.

d) *Board of Directors*

1) Approves recommended action by the Senior Management and/or RMAC.

Financial education and awareness

Policies

a) Financial education shall be integral to the good governance of BancoLagawe.

b) The Bank shall design a financial educational and awareness program that will benefit its customers, such as:

1) contribute to the improvement of client's knowledge;

2) understand the customer's rights and responsibilities, basic information, and risks of financial products and services; and

3) ability to make informed financial decisions and participate in economic activities.

c) The Bank shall design its financial education and awareness materials to the level of literacy of customers, like dialect spoken and use of simple and clear statements.

d) In delivering public awareness campaigns and information for customers, Bank's focus can be in the form of:

- budgeting or financial planning
- saving, investing
- retirement planning
- self-protection against fraud

e) Branches shall distribute to customers, before opening a deposit account or apply a loan, a pamphlet on questions which customers need to ask.

f) The Bank shall develop updated financial education tools for customer responsibility to ask the right questions, such as;

- customized advice and guidance (face-face)
- printed brochures, flyers, posters training videos (debt/money/savings mgmt)
- newsletters, websites

g) The Bank shall provide via internet or through printed publications unbiased and independent information to customers through comparative information about the price and other key features, benefits and risks, and associated fees and charges of deposits, loans and other products and services.

h) Regularly track, monitor and assess campaigns and programs and use the results of the evaluation for continuous improvement.

Senior Management

1) Recommends financial education awareness program to the Board of Directors.

Board of Directors

1) Approves the financial education and awareness program; and

2) Prepares board resolution.

Senior Management

1) Directs the Marketing Department to prepare brochures, pamphlets containing the important features, data and information related to products and services of the Bank;

2) Directs the IT Manager to posts important features, data and information related to products and services of the Bank;

3) Instructs the Head CAO to distribute the flyers and brochures to all CAOs.

HR Officer

1) Prepare memorandum instructing all CAOs to meet their branch officers and staff and explain the contents of the flyers and brochures; and

2) Forwards the memorandum, flyers, or brochures to all CAOs.

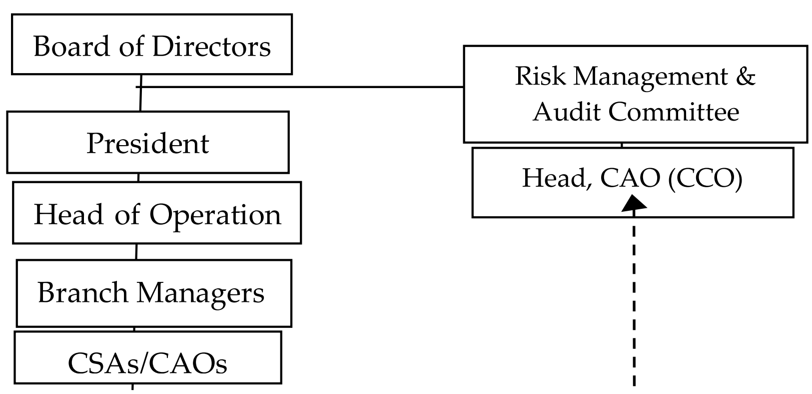
Customer Service Assistants- (CAOs)

1) Provides flyers or brochures to customers as they visit the Bank;

2) Explain the main features, data and information per flyer or brochure.

Customer assistance management system (cams)

BancoLagawe follows its existing operational channel in handling customer complaints. It has designated its Customer Assistant Officers to serve as the Branch's Customer Assistance Officers (CAOs), while the Chief Compliance Officer is designated as Head of the Customer Assistance Officers. The Branch CAO reports complaints to the Head, CAO who, in turn, reports and discusses to the Management Committee the report on complaints and then to the Board, through then Risk Management and Audit Committee (RMAC), which will provide action based on the recommendations of the Head of CAOs. The structural chart for CAMS is presented below:



Roles of customer assistance officer (cao)

The Branch CAOs shall have the following functions and responsibilities:

1) Receives and acknowledges customer concerns, either complaint or request. A Complaint/Request Form (see below) shall be provided to the customer to file the complaint with the Bank;

2) Records customer's concerns in a logbook. A database of concerns is encoded in the computer.

3) Makes an initial review and investigation of concerns of the customer. He/She shall see to it that the primary cause of the customer's concern is identified properly;

4) Processes concerns of the customer. The CAO shall immediately address the concern of the customer. If the concern requires Head CAO's assistance, sends immediately the concern to her/him;

5) Provides official reply to the customer;

6) In order to determine whether the Bank has satisfactorily addressed the concern of the customer, requests client feedback;

7) Prepares and submits a summary report to Head Customer Assistance Officer.

Roles of head customer assistance officer

In order to monitor the functions of the CAOs and implementation of the CAMS, the Head CAO shall conduct the following:

1) Monitors customer assistance process being undertaken by the CAOs. Ensures that all CAOs are doing their functions properly and accurately and that timely submission of report of complaints are done;

2) Keeps track, identify and analyze nature of complaints and recommends solutions to avoid recurrence. The nature of complaints could be poor personnel service, process, or defective property of the Bank;

3) Reports to Senior Management the complaints received on a monthly basis including reasons for such complaints, the recommended solutions to avoid recurrence and the suggestions for process or personnel competency or Bank's property needing improvement; and

4) Ensures immediate escalation of any significant complaint to the Risk Management and Audit Committee (RMAC) Chairman for proper disposal.

Capability building training

In order to gain skills and knowledge on how to handle customer concerns, Bank personnel shall undergo the following training:

1) Solid interpersonal skills/customer service;
2) Basic and advance listening skills;
3) Written and verbal communication skills;

4) Handling financial customer feedback;
5) Dealing with difficult people;
6) Problem solving and conflict resolution
7) Bank's corporate structure, products and services

BancoLagawe continues to develop its employees' training needs which shall include customer protection. The Bank shall identify the type of training or seminar to be accorded to each of the employee including the customer protection aspect.

These training and seminars are summarized in the Annual Personnel Development Program of the Bank. Each of the Bank's employee including Board of Directors and Senior Management Officers are provided with their corresponding needed trainings, training provider(s), projected date of training and the estimated costs for each training.

The total costs under the Annual Personnel Development Program shall be part of the annual "Training and Seminar Expense" budget of the Bank.

Publication of customer assistance management system

The Bank shall publish its CAMS in clear and simple language through any of the following:

1) Posting of summary details of CAMS in the lobby of the Main Office and its branches.

2) The Bank shall also print the CAMS in brochures or flyers to be given to all customers who sign up for new loan or deposit services.

3) The Bank shall revise its Application for New Account forms for deposits and loan forms to include the CAMS.

4) The CAMS shall be posted in the Bank's website.

Customer assistance channels

Customers may lodge their complaints or requests to any of the Bank's channels:
1) walk-in or personal visit
2) letter or e-mail
3) telephone/ cellphone.

Each branch of the Bank shall maintain Customer Assistance Help-Desk with cellphone allotted for customer concerns and service. The Customer Service Assistants (CSAs) shall be in charge of the Customer Help-Desk.

The Bank shall post to all lobbies of branches a poster where customers know how and where to lodge their concerns.

The Bank shall provide special lane for senior citizen, customer with disabilities (CWDs), pregnant women, women with children as part of its prioritization scheme in serving customers.

The Bank shall also provide alternative mode of resolution, such as; conciliation, mediation and arbitration, in order to achieve, settlement of issues at the Bank's/branch's level.

Each branch has a suggestion box where the customer can provide comments or even concerns. On a daily basis, the Branch CAO responds to the concerns or suggestions of clients.

Customer assistance process and timelines

Any simple concern (complaint or request) shall be processed by the Bank within seven (7) days and the reply shall be issued within two (2) days after the resolution is completed. Below is the process and timelines for simple concern.

STEP	ACTION/S TAKEN BY BANK STAFF	RESPONSE TIME	PERSON IN CHARGE	FORMS
Receiving and Acknowledgement 1				
a. Walk-in clients: -Fill out the complaint form	Accommodates the walk-in complainants and assists in filling-out the complaint form	1 minute	Customer Assistance Officer	Complaint Form
b. Complaints/Inquiry/ Request made thru Phone	Answers the phone call while filling-out the form with details on the complaints, inquiry, or request	Immediately	Customer Assistance Officer	Complaint Form
c. Complaints/Inquiry/ Request made thru mail **d.** Complaints/Inquiry/ Request made thru e-mail	**a.** Receives by stamping the document with time and date the document is received; **b.** Sends a letter acknowledging receipt of the document.	Upon receipt of the letter Within 2 days	Customer Assistance Officer	
	Sends an initial acknowledgement e-mail	Within the day of receipt	Customer Assistance Officer	
Processing and Resolution 2				
	Investigate the complaint or request. **a.** If a branch personnel's attitude or character is involved in the complaint, the Branch CAO shall personally discuss the matter to the concerned employee; **b.** If a Bank's process/procedure or property is involved in the complaint, the CAO shall	Within 2 Days	Customer Assistance Officer	

STEP	ACTION/S TAKEN BY BANK STAFF	RESPONSE TIME	PERSON IN CHARGE	FORMS
	course through the complaint to the Head CAO			
	Analyze the nature of complaints and prepare the recommended solution(s); For unresolved concerns, forward to the HCAO: - HCAO shall analyze the nature of the complaint/ request and obtain necessary documents as basis for recommending solutions	Within 4 Days	Customer Assistance Officer HCAO	
	Review and approve the recommended solutions; Forward the concern to the ManCom	Within 5 Days	HCAO	
	The HCAO shall meet with the concerned Department Head, discuss, and find the reason of such a complaint/request. He/She shall possibly act immediately to the complaint/request. If the problem requires the concurrence of the ManCom and/or Board of Directors, discuss the matter with the ManCom or include the complaint/request in the agenda during the meeting of the Board or the designated committee. The Head CAO shall ensure that an action from the ManCom and/or Board of Directors is obtained.	Within 6 days	HCAO	
	Prepare a memorandum letter addressed to the Branch CAO endorsing the result of action or reply taken from the ManCom and/or Board of Directors, through the RMAC.	Within 7 days	HCAO	Memorandum
	Provide official reply to the Customer.	Within 9 Days	Customer Assistance Officer	Letter
	Obtain feedback	Within 15 days	Customer Assistance Officer	Feedback Survey Form

Note: All periods are reckoned from receipt of complaint/request.

However, if the complaint/request of the customer is complex and requires third party intervention in the investigation process, the resolution could be done within not exceeding forty five (45) days. Thereafter, the resolution shall be issued within two (2) days.

Receiving and Acknowledging Concerns Process

In order to process accurately the complaint/request, the Bank shall obtain and record the following data from the customer:

1) Full name and contact details
2) Nature of complaint or request and its details
3) Resolution requested
4) Signature of complainant/requester
5) Name of Bank employee directly handling / in-charge of the complaint

The CAO shall explain the customer assistance process and timelines. The Bank shall provide an assurance to the customer that the Bank is attending with the complaint or request, and that complainant shall be kept well-informed on the progress of the complaint or request until a resolution is obtained.

Process in Investigating and Resolving Complaint/Request

In investigating and resolving complaint or request of customer, the Bank shall conduct the following procedures within nine (9) days upon receipt of the complaint/request:

1) The Branch Customer Assistance Officer (CAO) shall interview the customer to determine the main cause of the complaint or request;

2) If a branch personnel's attitude or character is involved in the complaint, the Branch CAO shall personally discuss the matter to the concerned employee;

3) If a Bank's process/procedure or property is involved in the complaint, the CAO shall course through the complaint to the Head CAO;

4) The HCAO shall meet with the concerned Department Head, discuss, and find the reason of such a complaint/request. He/She shall possibly act immediately to the complaint/request. If the problem requires the concurrence of the President and/or Board of Directors, discuss the matter with the President or include the complaint/request in the agenda during the meeting of the Board or the designated committee. The Head CAO shall ensure that an action from the President and/or Board of Directors is obtained.

5) The Head CAO shall prepare a memorandum letter addressed to the Branch CAO endorsing the result of action or reply taken from the President or Board of Directors.

6) The Branch CAO shall in turn prepare a letter addressed to the customer.

Provided that the extension shall not exceed 45 days, if assessment and investigation of complaints/requests cannot be completed within the time frame, complainants shall be informed in writing the following:

1) Reason thereof

2) Need for extended specific time frame
3) Date on which the complainant may expect the outcome

Confidentiality

The Bank or its personnel shall not disclose to a third party any information acquired from the customer in all stages of the complaint, except, as may be required by the conduct of the Bank's investigation or upon the written consent of the customer.

Conflict of Interest

The Bank shall ensure that complaints are investigated by a Customer Assistance Officer (CAO) who is neither directly or indirectly involved in the matter which is the subject of the complaint. The CAO shall not also investigate a complaint if the subject of a complaint is a close friend.

In either case above, the Head CAO shall investigate the complaint or request.

Customer feedback

Subject to the willingness of the customer, the CAO shall ask feedback on the following matters:

1) Over-all satisfaction (satisfied, somewhat satisfied or dissatisfied)
2) Process needing improvement
3) Personnel needing improvement
4) Property needing improvement
5) Any other suggestion for improvement of the operations of the Bank

Customer feedback shall be obtained through a feedback form from the customer. In this case, a suggestion box shall be installed in all branches of the Bank. In like manner, Bank's CAO may conduct satisfaction survey available for walk-in complainants. The Bank, through its IT Specialist, can derive survey via its website.

Customer feedback shall be recorded and analyzed by the Head CAO in order to improve the system and to enhance personnel capabilities in handling complaints, determine the weaknesses of the Bank including the need to procure new machines or improvement of Bank's façade and signage. He shall provide recommendations and/or solutions for action by the President and/or the Board of Directors. The aim of feedback mechanism shall focus in not repeating the same complaint by other customers and to determine whether such issue is isolated or widespread or system problem of the Bank.

Complaints recording and data management

The Bank and its branches/offices shall maintain copies of the complaints/requests received, including supporting documents within two (2) years from date of resolution. Digital copies of documents may be maintained by the Bank in accordance with the MIS for record keeping.

The Bank's Main Office and its branches shall maintain complaints/requests Register/Logbook with the following contents:

1) Name of the complainant
2) Subject/nature of the complaint (loans, administrative, remittances, deposits, etc.)
3) Name of personnel handling directly or in-charge of the complaint and Officer supervising the resolution of the complaint
4) Date of Receipt
5) Actions taken on the complaint or request
6) Resolutions provided;
7) Date of resolution (the register must reveal the reason in case the date of resolution falls outside the regulatory deadline)
8) Other details such as, log-and details of phone calls made or received.

The Head Customer Assistance Officer (HCAO) shall maintain:

1) Master register of all complaints received by the Bank and its branches;

2) A complaint database to identify the trend of complaint received, potential problems and customer protection risks.

The records shall be available to BSP Examiners, External Auditors and Internal Auditors during their regular or special review of records pertaining to customer protection program of the Bank.

Customer protection risk assessment strategies

The Bank has in-placed customer protection risk assessment strategies in order to attain the following purposes:

1) It identifies and remedies any recurring or systemic problems;
2) It identifies weaknesses in the Bank's internal control or process;
3) Provides immediate solutions to the complaint in order to avoid future inconveniences for both the customer and the Bank; and
4) Aimed at improving and maintaining a long lasting relationship between the Bank and its customers.

Strategies in assessing risks associated to consumer protection may be done by

1) Analyzing complaints/requests data;
2) Analyzing causes of complaints/requests;
3) Considering whether such identified weaknesses may also affect other processes or products including not directly complained or requested;
4) Correcting whether reasonable to do so, such causes taking into consideration the concomitant costs and other resources.

Customer complaint reporting

a) The Bank has adopted a manner of internal reporting in order to facilitate immediate reply to customer and avoid delay, as follows:

1) The Customer Assistance Officers (CAOs) in the branches shall submit a Summary of Complaint/Request Report to the

Head Customer Assistance Officer on a monthly basis. It shall be submitted within the 10th day of the following month.

2) The Summary of Complaints/Requests Report shall be reported on a monthly basis by the Head Customer Assistance Officer (HCAO) to the ManCom for discussion of immediate resolutions and/or action plan/s, then to the RMAC and Board of Directors. Any action by the Board of Directors shall be evidenced by a board resolution. Any action by the Senior Management shall be evidenced by a Memorandum Letter addressed to the HCAO.

3) The Summary of Complaints/Requests Report shall have the following minimum data:

a) General category of complaints received;

b) Statistics and frequency of said complaints;

c) Aging of complaints or requests;

d) Explanation on deviation , if any, from required resolution period; and

e) General description of resolutions or actions taken to resolve the complaints or requests.

b) The report shall include recommendation on how to avoid recurring complaints and suggestions for process/ personnel competency improvement or property improvement, if any.

c) The report of the Bank's Internal Audit concerning the independent review conducted on the complaints report, policy recommendation and customer protection compliance shall be elevated to the Board or Audit Committee every quarter. The Audit procedures on customer protection shall be followed under Internal Audit Function under this Manual.

d) The Bank shall include complaints/requests statistics in its Annual Report. This is to provide an overview of the current year efficiency of the Bank in resolving customer issues and concerns.

BSP Reporting

a) The Bank shall submit a consolidated Complaints Report to the Supervisory Data Center of the SES on a quarterly basis.

b) Such report shall be reported on a format required by BSP not later than 1 month after each quarter.

Sanctions and penalties

a) Administrative sanction under the HR Policy Manual/Code of Conduct of the Bank shall be imposed to personnel who committed violation to the policies and procedures pertaining to customer protection reporting. The Bank has also the option to file criminal case against an erring employee should he/she found violating law(s) to which it requires the Bank to prosecute an employee.

b) The Bank shall impose to an erring employee any monetary sanction or penalty imposed by the BSP for late or non-reporting of customer complaints after one (1) month after a quarter elapses.

Interface with BSP

Pursuant to BSP Customer Protection Framework, the Bank shall exhaust all internal remedies available to address the issues raised by the customers in their complaints/requests.

However, customers dissatisfied with Bank's response or action may seek assistance with the following:

Financial Consumer Protection Department
Supervision and Examination Sector
Bangko Sentral ng Pilipinas
5th Floor Multi-Storey Building
BSP Complex, A. Mabini St., Malate
1004 Manila

Telephone Numbers:
Trunk Line: (632) 708-7701, extension nos. 2584
Direct Line: (632) 708-7087
E-mail Address: consumeraffairs@bsp.gov.ph

Accountability and rewards

The Bank applies performance evaluation system to personnel handling the complaints/requests and may link to rewards or remuneration system of the customer protection personnel.

This is done by including the parameters of customer service and protection in the annual employee performance evaluation which requires the personnel to follow the regulation as well as policies pertaining to customer protection. A sustained excellent service to the customer may merit salary increase, while poor customer service will warrant disciplinary measures ranging from no increase in salary and/or disciplinary actions against the employee who committed violations pertaining to customer protection program.

Customer assistance to persons with disabilities & non-english speakers

The Bank has developed steps and policies in assisting customers with disabilities and Non-English speakers.

Practically, the Bank shall take importance on the needs of the PWDs (deaf, learning difficulties, visually impaired, Non-English Speakers, Senior Citizens and Pregnant Women) in ensuring that they understand the Customer Assistance Management System (CAMS). This includes:

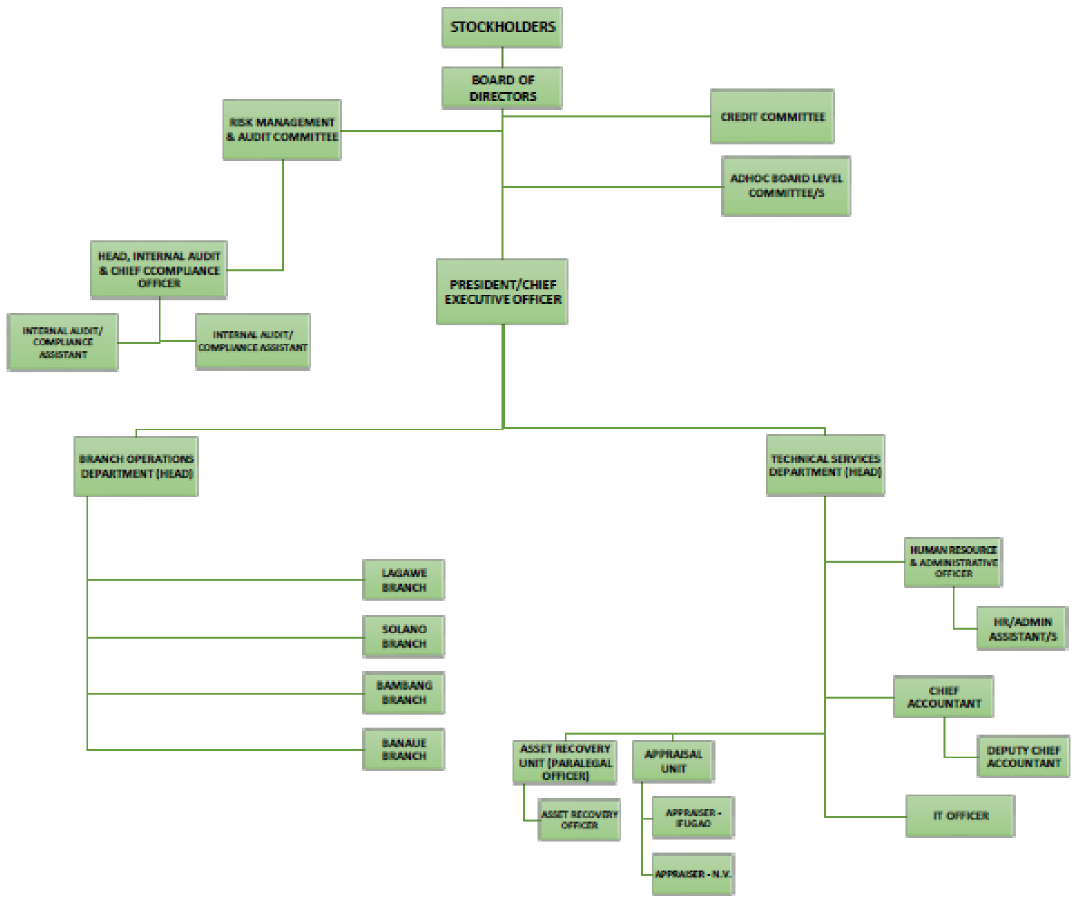
1) The installation of CAMS to posters in all its branches.

2) Constructed concrete ramp to its buildings and offices spaces leading inside the Bank premises.

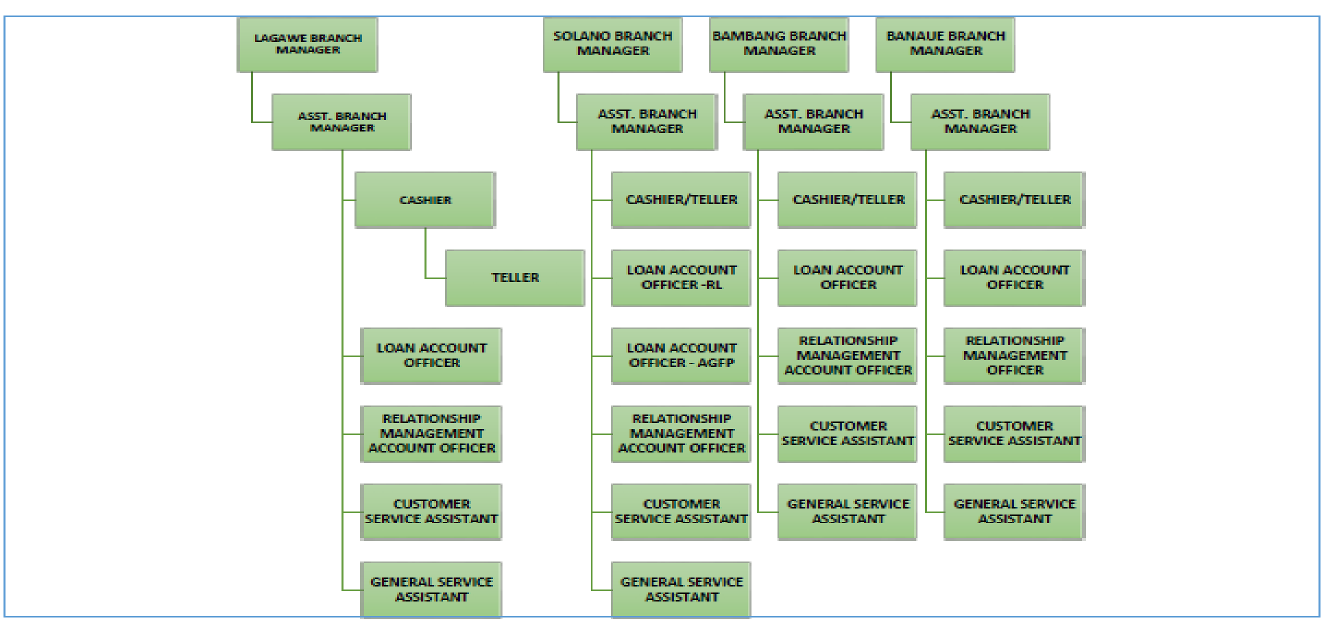
3) Given priority lane to senior citizens, pregnant women and disabled persons and children to facilitate their banking transactions with the Bank.

Corporate Information

2019 BANCOLAGAWE ORGANIZATIONAL STRUCTURE



BRANCH ORGANIZATIONAL STRUCTURE



2019 Management Directory

President and CEO	MIRIAM RUTH D. TUGAWIN
Vice President/ Head of Operations and Marketing	THERENCE G. BATULON
Assistant Vice President/ Head of Technical Support	OLIVIA G. GABUL
Head of Internal Audit/ Chief Compliance Officer	DIANA DEAN C. ATIENZA
Lagawe Branch Manager	GINA N. MIRANDA
Solano Branch Manager	OFELIA M. DECORO
Bambang Branch Manager	ANABEL A. GONZALES
Banaue Branch Manager	MARK JONES M. BAGUILAT

Major Stockholders (more than 20% of voting shares)

NAME AND NATIONALITY	SHARES SUBSCRIBED				
	TYPE	NUMBER	AMOUNT (PhP)	% OF OWNER-SHIP	Voting Status
1. Phil. Rural Reconstruction Movement (Filipino)	Common Shares	1,834,628	18,346,280.00	48.48%	Voting

Products and Services

I. Credit Facilities

The bank offers Term Loan and Credit Line credit facilities. The Credit Line facility is a privilege that is granted to borrowers with good credit track record for at least one (1) year and is limited to business, contractor, and agricultural loans. Good credit track record means that there is no unjustified missed payment and the client voluntarily communicates with the bank in case of delayed payment and that the missed payment is settled or the outstanding balance renewed within 30 days from the due date.

The basic differences between Term Loan and Credit Line are tabled below.

Term Loan	• Can have a loan duration of less than one month to more than 12 months • Paid loan amortization cannot be re-borrowed, thus availing of loan has to undergo the whole process of loaning and approval • Loans are released in lump sum and must be released/availed within 30 days from the date of approval.
Credit Line	• Credit Line has a maximum term/loan duration of twelve (12) months • Paid amortization can be re-borrowed as long as the existing Credit Line has not expired. • Borrowers under a Credit Line must have the following eligibility criteria, aside from having a good credit track record for at least one (1) year. <u>Business</u> – With profitable operation for the past two (2) years. <u>Contractor Loan</u>- borrower must be a licensed contractor or sub-contractor of a licensed contractor with good track record as a contractor/sub-contractor in the locality or within the region of operation and profitable as a contractor/sub-contractor for the past two (2) years. <u>Agricultural Loan</u> – Borrower should be with experience in the line of production for at least two (2) years; with good credit tract record of least two (2) production cycles.

Loan Products

The bank has diversified loan products to satisfy the needs of its customers and to avoid risks of over-concentration to one or few products. The matrix shows the products and product features.

Product	Purpose of Loan	Mode of Payment	Maximum Loan a/	Maximum Term of Loan
Agricultural Loan	• Farm production • Purchase of farm equipments/machineries • Farm improvement/development	• Lumpsum, pre-deducted interest • Based on Cash Flow • Based on Cash Flow of the source of payment	• Depending on the crop, based on the Financial Validation Guide. • 85% of the cost of equipment/machinery • 100% of the cost of improvement/ development, to be released in tranche.	6 months /depending on the gestation of crop. • 3 years • 4 years
Alalay sa Agri-production (ASAP) Loan (unsecured Agricultural loan for AGFP guarantee)	• Working capital for food commodity production of small farmers, small poultry and livestock raisers, and small fisher folks	• Lumpsum,pre-deducted interest	• Palay -40,000/ha • Corn-40,000/ha. • Cassava-20,000/ha. • Other short term crops-40,000.ha. • Tilapia -400,000/ha. • Poultry/Livestock -Layer -860/layer -Broiler-100/broiler -Goat -5,000/hd. -Hog breeding-50,000/hd -Hog-fattening-5,000/hd	• 5 months • 6 months • 14 months • 7 months • 7 months • 20 months • 7 months • 7 months • 14 months • 7 months
Business Loan	• Working Capital for existing business • Emergency Working Capital or Bridge Financing • Payment of Leasehold Right (except	• Based on Cash Flow • Lumpsum • Based on Cash Flow	• Single Borrower's Limit (SBL) based on existing bank policy. • May exceed up to 10% of the loanable value of collateral • 100% of the leasehold right	• 3 years • 7 days • 3 years

	start-up business)			
Business Development Loan	• Business Development Loan-for construction of commercial building, gasoline station and resorts development, among others.	• Based on CF of source of payment	• 80% of the cost of construction or development	• 5 years With maximum one year grace period on principal
Contractor Loan	• Mobilization Fund to start a project • Working Capital for an on-going project	Lumpsum, pre-deducted interest Lumpsum, pre-deducted interest	• 10% of contract of borrower • 60% of contract of borrower	• 6 months • 12 months
Housing Loan (for first home)	• Residential lot • House and lot • Construction of new house • House improvement, expansion	Monthly	80% of the cost	5 years
Asset Acquisition	Acquisition of assets, except purchase of machinery/equipment under agricultural loan, and purchase of residential lot & house and lot which are under housing loan.	Depending on the source of payment & Cash Flow	Lot acquisition- 100% of the cost Purchase of equipment/machineries/vehicles-75% of cost of item to be purchased	5 years 3 years
Mortgage Redemption	Redemption/repossession of property mortgaged/loan buy-out to a private individual or pawnshop or corporation.	Depending on the source of payment & Cash Flow	100% of the mortgage	5 years
OFW Loan	• Visa Application –Back-to-Back (on-us deposit) • Working Visa application	Monthly; lumpsum for back-to-back loan.	**Placement & Visa Application Fees**- depending on country of destination; Back-to Back: maximum of 90% of deposit, if deposit is in other	**<u>Placement Fee</u> –** Up to 2 years; may have a grace period of 2 months on principal

	• Placement Fees		banks and with hard collateral; 100% of amount needed if deposit is on-us. (interest is pre-deducted and all charges paid).	**<u>Visa Application</u> (B2B** loan)- depending on the travel requirement
Salary Loan - Non-DepEd - DepEd - Fringe Benefit	• Education expense • Medical expense • Home appliances • Housing • Asset Acquisition • Other consumption needs	Monthly (deducted from Salary)	• 1/5 of the basic pay + regular or fixed allowances times the term of loan but the net take home pay after loan amortization should not be below P4,000 for private institutions and the annual GAA provision for government employees. Note: The percentage provided in the MOA with institutions shall be followed until amended. FBL max loan amount: • 1/5 of basic salary + fixed regular allowances times 60 months • Additional limit for Fringe Benefit Loan (FBL) – up to the monetary value of accumulated earned sick leave at the time of application and/or loanable value of deposit or REM (combination or all) • NTHP for FBL should not be lower than P1,500.00 per pay day, including the deduction of loan amortization with other institutions where the source of payment is from salary of the employee. • Maximum of two (2) PNs for FBL	3 years; (except FBL -5 years)
Pledge Deposit Loan	• Working Capital • Education expense • Medical expense • Housing • Home appliances	Monthly; automatic payroll deduction for salary-based source of payment	• 90% of pledge deposit	3 years but not to exceed the maturity date of the Pledge Deposit *(Office Order # 140, Jan. 2017)*

	Other consumption needs			
Consumption Loan	• Education (domestic) • Education (foreign) • Medical Expense • Home Appliances	Depends on source of payment/cash flow	• 50,000 • 800,000 • 200,000 • 50,000	1 year 3 years, with option for balloon package 2 years 2 years
Market Vendors Loan (for product review/development)	• Working capital • Education expense • Medical expense • Home appliances • Other consumption Working capital	Monthly	P 50,000.00	12 months *(Office Order # 140)*
Start-up Business Loan	• Purchase of Business Inventory • Purchase of business equipment and machineries	Monthly or quarterly based on cash flow	300,000.00	3 years, with option for 1 year grace period on principal

Clean/Character Loans – Post-dated Checks (PDCs)

The bank shall grant clean/character loans with post-dated checks to existing clients who have established a good credit and deposit track record of at least one year with the bank or with other financial institutions or supplier and personally known to the manager; with permanent residence in the province where the bank operates; and with good performance of checking account for the past twelve (12) months. The track record of transaction of his/her checking account should have no returned checks due to DAIF/DAUD and no credit balance below the minimum maintaining balance.

Clean loan shall have a maximum term of twelve (12) months and maximum loan amount of P150,000, with monthly equal amortization of principal and interest.

II. DEPOSIT PRODUCT

Deposit Product	**Brief Description**	**Minimum Balance to Earn Interest**
Regular Deposit	Deposit where you can withdraw and deposit anytime at any banking day.	Php500.00
Pledge Deposit	It is a savings plan that requires a specific purpose which will determine the tenor and amount of deposit.	
Kiddie/Teen Deposit	Deposits open by students from Nursery/ Kinder, Elementary, High School and College. It can be withdrawn during school days for educational needs.	Php500.00
Premium Deposit	This Deposit can also be withdrawn any time at any Banking day. It is a deposit that requires a minimum amount of Php50,000.00.	Php50,000.00
Special Savings Deposit	These are deposits which are to be withdrawn on a pre-designated date, depending on the term of deposit.	Php20,000.00
Long Term Deposit	Minimum Deposit of Php100,000.00, with a term of five (5) years and one(1) day.	Php100,000.00

Banking Units

Branch	Region	Provincial Location	City/ Municipality	Bldg.# Street Name, Village/Barangay	Contact Number
Lagawe	**CAR**	**Ifugao**	**Lagawe**	**#59 JP Rizal Avenue, Poblacion East**	**09275783880**
Banaue	**CAR**	**Ifugao**	**Banaue**	**Ilogue, Tam-an**	**09352719157**
Solano	**II**	**Nueva Vizcaya**	**Solano**	**#8 Espino St., Barangay Quirino**	**078-3265920/ 09059464115**
Bambang	**II**	**Nueva Vizcaya**	**Bambang**	**NVAT Compound, Almaguer North**	**09175066006**

Audited Financial Statements with Auditor's Opinion

TERRENCE LEIF F. FANGASAN
Certified Public Accountant

TLF CPA

#590 Loc-ong St., Poblacion, Bontoc, Mountain Province
Tel No. (074) 633-1113/ (0997) – 817-1485

Cell Phone No: (0918)-5018-878
E-mail: terrencefangasan@gmail.com

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS
LAGAWE HIGHLANDS RURAL BANK, INC.
Poblacion East. Lagawe, Ifugao

Report on the Audit of the Financial Statements

Opinion

I have audited the accompanying financial statements of ***LAGAWE HIGHLANDS RURAL BANK, INC.,*** which comprise the statement of financial position as at December 31 2019 and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the period ended December 31, 2019, and notes to financial statements, including a summary of significant accounting policies.

In my opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of ***LAGAWE HIGHLANDS RURAL BANK, INC.*** as of December 31, 2019 and of its financial performance, changes in equity and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

As discussed in Note 3 to the financial statements, the Bank adopted PFRS 9, except for the impairment requirements of the new standard. PFRS 9 introduces a forward-looking expected credit loss (ECL) model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contract.

Following the guidance of Circular 1011 and Appendix 100 /(97) of the Manual of Regulations for Banks (MORB) of the Bangko Sentral ng Pilipinas in adopting PFRS 9 impairment requirements, the Bank adopted Appendix 15/ (18) of the MORB in assessing and measuring impairment for its credit exposures. Appendix 15/ (18) of the MORB provides arbitrary rates for provisioning which is inconsistent with PFRS 9 and thus constitute a departure from PFRS. As of December 31, 2019 and 2018, the Bank's total allowance on credit losses amounted to P 18,821,403 and P17,612,754 respectively.

As the Bank has not implemented the ECL requirements of PFRS 9, any adjustments to the amounts of the allowance for credit losses and related deferred tax assets as at January 1 and December 31, 2019 and Surplus as at January 1, 2019 has not been determined.

I conducted my audit in accordance with Philippine Standards on Auditing (PSAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics) together with the ethical requirements that are relevant to my audit of the financial statements in the Philippines and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. I have determined that there are no key audit matters to communicate in my report.

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TERRENCE LEIF F. FANGASAN
Certified Public Accountant

#590 Loc-ong St., Poblacion, Bontoc, Mountain Province
Tel No. (074) 633-1113/ (0997) – 817-1485

Cell Phone No: (0918)-5018-878
E-mail: terrencefangasan@gmail.com

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

I will communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Matter

The financial statements of the Bank as of December 31, 2018, were audited by another auditor whose report dated April 10, 2019 expressed a qualified opinion on those statements.

TERRENCE LEIF F. FANGASAN
Certified Public Accountant

#590 Loc-ong St., Poblacion, Bontoc, Mountain Province
Tel No. (074) 633-1113/ (0997) – 817-1485

TLF CPA

Cell Phone No: (0918)-5018-878
E-mail: terrencefangasan@gmail.com

Report on Other Legal and Regulatory Requirements

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 on taxes, duties and license fees in Notes 29 and 30 to the financial statements is presented for purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of ***LAGAWE HIGHLANDS RURAL BANK, INC.*** The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on the Supplementary Information Required Under Part I Section 4 C of SRC Rule 68, As Amended

My audit was conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplementary information on reconciliation of retained earnings available for dividend declaration and tabular schedule on Note 34 are presented for the purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Report on the Supplementary Information Required Under Part I Section 4 J of SRC Rule 68, As Amended

My audit was conducted for the purposes of forming an opinion on the basic financial statements taken as a whole. The supplementary information on tabular schedule of standards on Note 33 are presented for the purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

TERRENCE LEIF F. FANGASAN
CPA Certificate No. 0106679
PTR No. 07135950, issued on January 2, 2020. Bontoc, Mountain Province
Tax Identification No. 923-170-974
PRC – BOA No. 5691; effective until July 25, 2020
BIR Accreditation No. 02-003884-1-2019; effective until August 28, 2022
CDA CEA No. 1077, effective until January 24, 2022
BSP Accredited Category C; effective for Financial Audit Reports until 2019

TERRENCE LEIF F. FANGASAN
C P A
MY SEAL
BOA 5691
BONTOC, MOUNTAIN PROVINCE

March 28, 2020

LAGAWE HIGHLANDS RURAL BANK INC.

JP Rizal Avenue, Poblacion East, Lagawe, Ifugao

Statements of Financial Position

As of December 31, 2019 and 2018

(In Philippine Peso)	*Notes*	2019	2018
ASSETS			
CASH AND CASH EQUIVALENTS	4,5,6,7,8	80,481,990	80,309,339
INVESTMENT SECURITIES	4,5,6,7,9	2,800,000	2,800,000
LOANS AND RECEIVABLES, Net	4,5,6,7,10	281,484,986	295,890,067
PROPERTY AND EQUIPMENT, Net	4,5,11	16,652,258	17,280,602
INVESTMENT PROPERTY, Net	4,5,12	35,667,792	19,374,827
DEFERRED TAX ASSETS	4,5,13	3,345,098	2,987,639
OTHER ASSETS	4,5,6,7,14	8,692,378	8,178,924
TOTAL ASSETS		429,124,501	426,821,398
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	4,5,6,7,15	252,359,334	274,005,832
BILLS PAYABLE	4,5,6,7,16	115,203,753	95,298,828
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	4,5,6,7,17	5,525,149	3,838,847
OTHER LIABILITIES	4,5,6,7,18	4,564,626	5,099,738
INCOME TAX PAYABLE	4,7,26	532,517	-
TOTAL LIABILITIES		378,185,379	378,243,245
EQUITY			
CAPITAL STOCK	4,19	37,839,780	37,609,780
SURPLUS RESERVES	4,19	5,000,000	5,000,000
SURPLUS FREE	4,19,20	8,099,343	5,968,373
TOTAL EQUITY		50,939,123	48,578,153
TOTAL LIABILITIES AND EQUITY		429,124,501	426,821,398

(See Accompanying Notes to Financial Statements)

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LAGAWE HIGHLANDS RURAL BANK INC.

JP Rizal Avenue, Poblacion East, Lagawe, Ifugao

Statements of Income

For the Years Ended December 31,2019 and 2018

(In Philippine Peso)	*Notes*	2019	2018
INTEREST INCOME			
Interest Income on Loans and Receivables	*4,5,9,22,29*	44,595,034	37,870,488
Interest Income on Deposits and Investments	*8,10,29*	838,967	683,856
Interest Income-Others		15,527	319,454
Total Interest Income		45,449,529	38,873,798
INTEREST EXPENSE			
Interest on Deposit Liabilities	*4,15,29*	8,334,954	8,330,318
Interest on Borrowed Funds		6,411,873	4,769,528
Total Interest Expense		14,746,827	13,099,845
NET INTEREST INCOME		30,702,703	25,773,953
NON-INTEREST INCOME			
Service Charges/ Fees		339,659	502,072
Gains/(Losses) from Derecognition of Non-Financial Asset:		592,373	1,059,990
Foreign Currency Gains/(Losses)		(6,225)	8,384
Recovery on charged-off assets		-	9,911
Dividend Income		46,291	91,272
Miscellaneous Income		5,341,231	6,110,736
Penalties		4,025,866	2,901,560
Total Non-Interest Income	*4,23,29*	10,339,194	10,683,925
TOTAL OPERATING INCOME		41,041,897	36,457,878
NON-INTEREST EXPENSES			
Compensation/Fringe Benefits	*4,20,24,31*	13,977,195	13,247,270
Depreciation/ Amortization	*11,12*	1,729,599	1,500,961
Taxes & Licenses	*30*	3,781,764	3,336,680
Bad Debts Written off		-	-
Provision for Probable Losses	*9*	1,346,958	4,070,302
Management and Other Professional Fees		256,160	317,969
Insurance		1,101,938	1,104,134
Other Administrative Expenses	*4,25,31*	16,043,513	12,607,193
Total Non-Interest Expenses		38,237,127	36,184,508
INCOME BEFORE INCOME TAX		2,804,769	273,370
PROVISION FOR INCOME TAX	*4,26*	672,798	8,676
NET INCOME FOR THE YEAR		2,131,971	264,694
EARNINGS PER SHARE (EPS)	*4,27*	0.56	0.07

(See Accompanying Notes to Financial Statements)

LAGAWE HIGHLANDS RURAL BANK INC.

JP Rizal Avenue, Poblacion East, Lagawe, Ifugao

Statements of Comprehensive Income

For the Years Ended December 31,2019 and 2018

(In Philippine Peso)	*Notes*	2019	2018
NET INCOME FOR THE YEAR		2,131,971	264,694
OTHER COMPREHENSIVE INCOME	35		
Items that will not be reclassified to profit or loss		-	-
Items that may be subsequently reclassified to profit or loss		-	-
TOTAL COMPREHENSIVE INCOME		2,131,971	264,694

(See Accompanying Notes to Financial Statements)

LAGAWE HIGHLANDS RURAL BANK INC.

JP Rizal Avenue, Poblacion East, Lagawe, Ifugao

Statements of Changes in Equity

For the Years Ended December 31,2019 and 2018

(In Philippine Peso)	*Notes*	**2019**	**2018**
CAPITAL STOCK			
Authorized - 5,000,000 shares at P 10			
par value per share = P50,000,000			
=========			
Ordinary Shares - Paid Up		**37,839,780**	37,609,780
Total Paid Up Capital Stock	*4,19*	**37,839,780**	37,609,780
SURPLUS - RESERVES			
Reserves for Building Construction		**5,000,000**	5,000,000
Reserves for General Purpose		**-**	-
Total Surplus - Reserves	*4,20*	**5,000,000**	5,000,000
SURPLUS - FREE			
Beginning Balance		**5,968,373**	7,953,679
Dividends Paid		**-**	(2,250,000)
Prior Years' Adjustments	*20*	**(1,002)**	-
Net Income for the Year		**2,131,971**	264,694
Total Surplus - Free	*4,19*	**8,099,343**	5,968,373
TOTAL EQUITY		**50,939,123**	48,578,153

(See Accompanying Notes to Financial Statements)

LAGAWE HIGHLANDS RURAL BANK INC.

JP Rizal Avenue, Poblacion East, Lagawe, Ifugao

Statements of Cash Flows

For the Years Ended December 31,2019 and 2018

(In Philippine Peso)	*Notes*	**2019**	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before Income Tax		**2,804,769**	273,370
Adjustments to reconcile Net Income to Net Cash Provided by Operating Activities:			
Interest Income on Bank Deposits	4,5,22	**(838,967)**	(683,856)
Depreciation and Amortization	4,5,11	**1,729,599**	1,382,047
Provision for Credit Losses	4,5,6,7,9	**1,346,958**	4,070,302
Gain on Sale of Non-financial Assets	4,5,12	**(592,373)**	(1,059,990)
Capital		**4,449,986**	3,981,873
Changes in Operating Resources and Liabilities:			
Decrease (Increase) In:			
Loans and Other Receivable, Gross	4,5,6,7,9	**13,052,701**	(83,025,870)
Other Assets	4,5,6,7,14	**(286,621)**	(1,885,677)
Increase (Decrease) In:			
Deposit Liabilities	4,5,6,7,15	**(21,646,498)**	63,006,541
Accrued Expenses and other liabilities	4,5,6,7,16	**1,151,189**	2,831,578
Cash Generated/ (Used) from/ in Operations		**(3,279,243)**	(15,091,555)
Income Tax Paid	31	**(140,281)**	(1,998,919)
Interest Received	31	**838,967**	683,856
Interest Paid	31	**-**	-
Net Cash Provided/ (Used in) Operating Activities		**(2,580,557)**	(16,406,618)
CASH FLOWS FROM INVESTING ACTIVITIES			
(Additions) to Investment Securities	4,5,6,7,10	**-**	-
Disposal of Investment Securities	4,5,6,7,10	**-**	-
(Additions) to Property, Plant and Equipment	4,5,12	**(676,548)**	(4,406,099)
Disposal of Property, Plant and Equipment	4,5,12	**-**	68,000
(Additions) to Investment Property	4,5,11	**(17,208,223)**	-
Disposal/redemption of Investment Property	4,5,11	**503,053**	3,403,244
Net Cash Provided (Used) In Investing Activities		**(17,381,718)**	(934,855)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in Bills Payable	17	**19,904,925**	46,543,927
Issuance of Share Capital	17	**230,000**	1,676,000
Payment of Dividend Payable		**-**	-
Net Cash Provided by/(Used in) Financing Activities		**20,134,925**	48,219,927
NET INCREASE/ (DECREASE) IN CASH		**172,650**	30,878,454
CASH AND CASH EQUIVALENTS - BEGINNING	4,5,6,7,8	**80,309,339**	49,430,885
CASH AND CASH EQUIVALENTS - END	4,5,6,7,8	**80,481,990**	80,309,339

(See Accompanying Notes to Financial Statements)

Tier 1 and Tier 2 Components as of 31 December 2019

BREAKDOWN OF CAPITAL COMPONENTS		
TIER 1		
	PAID UP COMMON STOCK	37,839,780.00
	RETAINED EARNINGS	10,967,371.46
	UNDIVIDED PROFITS	2,131,971.06
	DEFERRED TAX ASSET	(3,345,097.79)
	SUBTOTAL	47,594,024.73
TIER 2		
	GENERAL LOAN LOSS PROVISION	2,106,993.05
TOTAL QUALIFYING CAPITAL		49,701,017.78