LAGAWE HIGHLANDS RURAL BANK INC.

BANCOLAGAWE

2021 EDITION

ANNUAL REPORT

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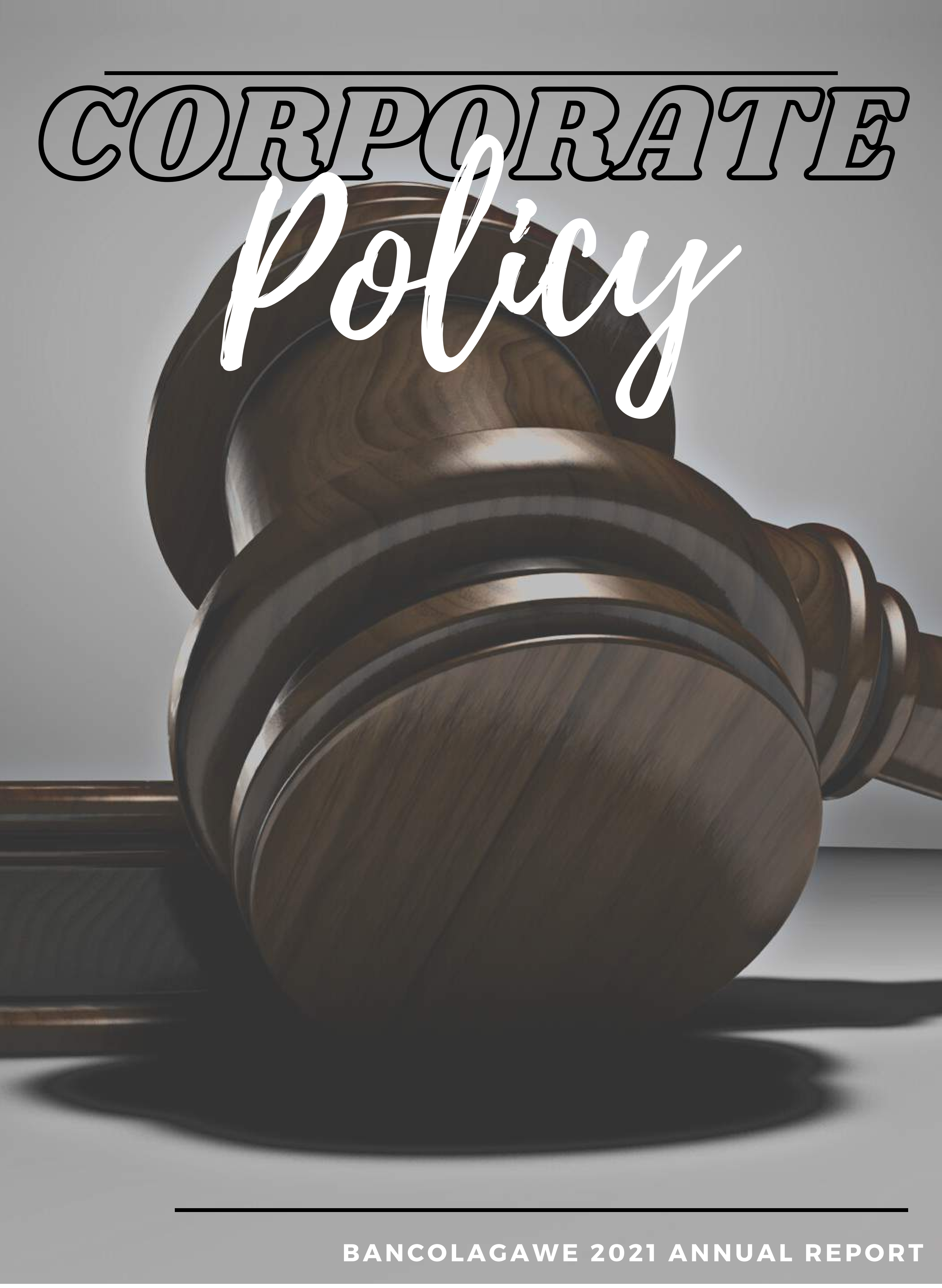
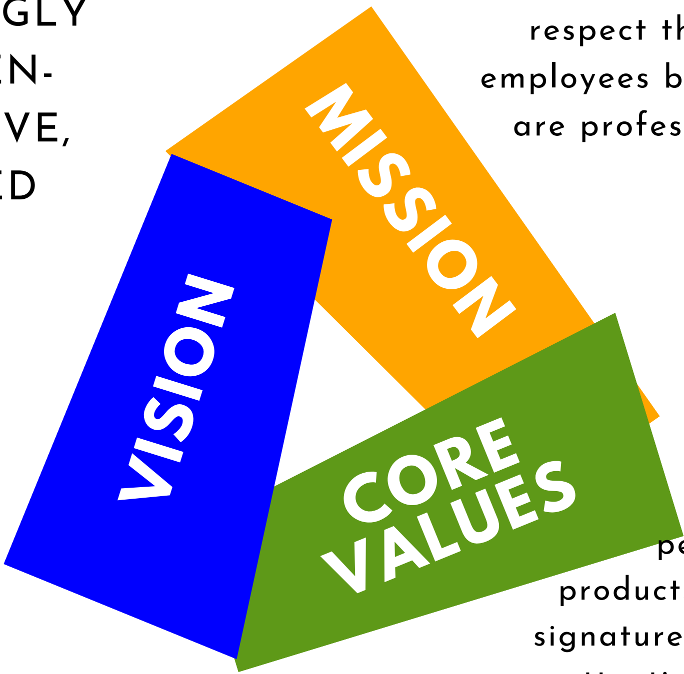


BANCOLAGAWE 2021 ANNUAL REPORT

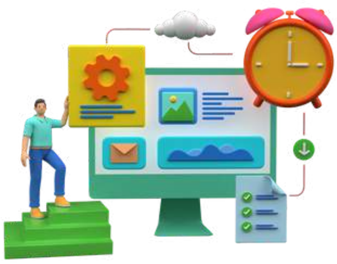
BancoLagawe is the BANK OF CHOICE in the areas where it operates because of its EXCELLENT and COMPETITIVE SERVICES managed by STRONGLY COMMITTED, OPEN-MINDED, PROACTIVE, AND EMPOWERED WORKFORCE.

We enrich people's lives by:

1. Providing excellent, fast, accurate, and courteous services to all our stakeholders for the growth of the local economy
2. Equipping to gain a competitive advantage in providing greater benefits and services to all our stakeholders
3. Creating a working environment of joyous spirit, open-mindedness, and respect that can motivate bank employees by providing benefits that are professionally and personally rewarding



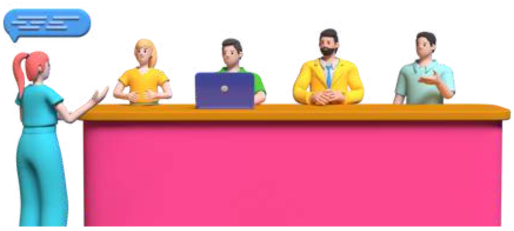
At BancoLagawe, we offer affordable, accessible, personalized, and pioneering products and services with our own signature friendly, sensitive, prompt, attentive, and responsive customer care. We take pains to build and nurture fair, transparent, honest, and mutually beneficial relationships with all stakeholders. We practice financial inclusiveness and social responsibility. And we operate as a social enterprise, profiting from work that benefits people and the local economy.



EXCELLENT SERVICE
We provide fast, accurate and courteous services.

COMMITMENT
We do everything we can to enrich people's lives.

EMPOWERMENT
We enable our workforce and stakeholders to create a meaningful environment of rewards, joyous spirit, trust and respect.



OPENMINDEDNESS
We are resilient to changes that will benefit the stakeholders.

PROACTIVE
We anticipate challenges and find sensible solutions.

PROFILE

Lagawe Highlands Rural Bank, Inc. (LHRBI) – also known as BancoLagawe – was established on December 23, 1999, in Lagawe, the capital town of the province of Ifugao in the Cordillera Autonomous Region. It was established with the support of the NOVIB-funded Sustainable Rural District Development Program (SRDDP) which has been implemented by the Philippine Rural Reconstruction Movement (PRRM) in Ifugao and four other provinces since 1989. The components of SRDDP are organizing, education, health, and local economic development. It was under the local economy development component that the bank was established.

The bank was set up as a credit institution with a distinct personality separate from PRRM as a rural development NGO (non-government organization). Among the five SRDDP areas (Bataan, Camarines Sur, Ifugao, North Cotabato, and Nueva Ecija), Ifugao was chosen as the pilot area for the bank as there was no existing rural bank in Ifugao then, easily satisfying the requirement of the Bangko Sentral ng Pilipinas (BSP) that new rural banks will only be allowed in areas where there are no existing rural banks.

PRRM assembled civic-minded and financially capable individuals to facilitate the establishment of a rural bank in the province. In December 1999, the BSP granted LHRBI its license to operate with an initial capital of P3.6 million. The bank started operations in Ifugao's capital town of Lagawe in 2000.

In November 2007, the bank's Solano Branch was established in Solano, Nueva Vizcaya as additional institutional and private investors joined the bank. During the same year, the bank started using BancoLagawe as a business name to enhance its name recall.

In October 2009, the bank set up its Bambang Branch at the Nueva Vizcaya Agricultural Trading (NVAT) Compound at Almaguer North, Bambang, Nueva Vizcaya mainly to service agricultural traders and farmers in the area.

From a modest Lagawe Branch office in the public market at Poblacion East, Lagawe, Ifugao in 2000, the bank's head office and main branch moved to a new location along the national highway at the town center of Lagawe on June 20, 2012. The bank's Solano Branch also expanded its office space and unveiled its new BancoLagawe façade in early 2015. And on February 22, 2016, the Bambang Branch office moved to its new location at the new administration building of NVAT, along the national highway at Almaguer North, Bambang, Nueva Vizcaya.

The bank's newest branch office in Banaue, ifugao was opened at the heritage site in February 2018.

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.

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.

BUSINESS MODEL

The bank is owned by individuals, families, and organizations bound together by a 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 by rural development advocates of the Philippine Rural Reconstruction Movement (PRRM), whose advocacy is the establishment of 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)

Minimum Required Data	Current Year 12-31-2021	Previous Year 12-31-2020
PROFITABILITY		
Total Net Interest Income	33,967,277.42	30,708,912.00
Total Non-Interest Income	11,321,993.53	22,690,036.00
Total Non-Interest Expense	37,484,997.54	36,134,876.00
Pre-provision profit	7,804,273.41	17,264,072.00
Allowance for Credit Losses	106,902.09	6,197,715.00
Net Incom	7,697,371.32	7,132,870.00
SELECTED BALANCE SHEET DATA		
Liquid Assets	104,569,498.80	134,963,836.00
Gross Loans	311,166,064.03	263,107,600.69
Total Assets	483,050,859.71	462,992,104.00
Deposit	345,167,094.77	314,536,096.00
Total Equity	71,229,582.02	66,165,742.00
SELECTED RATIOS		
Return on Equity	10.91%	10.78%
Return on Assets	1.77%	1.54%
Capital Adequacy Ratio	14.27%	15.12%
PER COMMON SHARE DATA (FOR UB'S/KB'S AND PUBLICLY LISTED BANKS)		
Net Income per share:		
Basic	1.54	1.43
Dilluted	1.54	1.43
Book value	14.25	13.25
OTHERS		
Cash Dividends declared	2,700,000.00	0
Headcount		
Officers	6	6
Staff	31	31

FINANCIAL Condition & RESULT OF Operation

BANCOLAGAWE 2021 ANNUAL REPORT

PRESIDENT'S REPORT

"GOD MAKES EVERYTHING BEAUTIFUL IN HIS TIME."

THERENCE G. BATULON

Acting President and CEO

Fellow stockholders, colleagues in the board, the management team, guests, ladies and gentlemen, a pleasant morning for all and welcome to our 23rd annual stockholder's meeting and hope you will enjoy being a part of it!

This is an event to recollect our year gone memories and cherish them again. I am thankful for taking your time out from your busy schedules and help us in making our event, more memorable!

To begin, let's take a review of BancoLagawe's journey. Over the past 2 years, we have been in day-to-day battle with an invisible enemy – the covid virus. It is not just a simple virus as some have perceived for as early as 6 months in the onset of it, we have readings that approximately 97 thousand businesses worldwide were in a disadvantage situation – they temporarily close or worse scenario, shutdown permanent. It has reshaped us in all aspects of our banking life.

The coming in of the covid 19 vaccine in the late part of 2nd quarter in 2021 somehow helps in mitigating the fast spread of the virus and hoping that the soonest possible time, the virus will perish. Now, it seems that everybody is attuned to the new normal and gradually all sectors are beginning to learn how to outlive the virus.

For us in BancoLagawe, giving one's best effort to ensure consistency of outcomes is always encouraged. Dealing the negative circumstances with positive mind setting is indeed noted learnings from the pandemic. It has stretched us to be more creative, innovative and resilient to rise above difficulties. We truly learned to cope, adapt and take actions to meet our internal and external client's needs. Our management team demonstrated impressive adaptability to cope to every threat affecting bank's daily operation. Further, the parental approach of our Board of Directors is an inspiration to move forward and face whatever hurdles that comes our way. As your bank president, I consider the aforementioned qualities of both- management team and Board of Directors as the ruling ingredient to make a food appetizing. I am beyond grateful!

Allow me then to present to you the picture of BancoLagawe through words and figures…

A) BancoLagawe Team:

We are blessed to begin the year with 37 employees spread out in our four (4) branches: 21 are assigned in the Head Office - Lagawe branch, 5 in Solano branch, 6 in Bambang branch, and 5 in Banaue branch. Of the 37 employees, 1 is under probationary. With the aim of bolstering our audit unit to help monitor and ensure compliance, that controls are in place, and for earlier detection of possible risk, we hired two (2) new internal audit assistants. However, we are not spared to turnover of employees- 1 terminated and 1 resigned.

We ended the year with 42 personnel including 4 utility workers. Deployment: Head office - Lagawe branch - 23, Solano branch - 6, Bambang branch - 7, and Banaue branch – 6. As of March 7, 2022, we hired 1 loan account officer and 1 general services assistant for Lagawe branch, and 1 general services assistant for Banaue branch.

As to trainings and seminars, despite the pandemic, we were able to send our people to trainings, we recorded at least 21 seminars conducted thru webinars and 8 in-house trainings. This is made possible because we believe that learnings and developments must continue to be able to adapt to changes and get updates on latest trends and good practices that could benefit us rural banks.



B) STRATEGIC FOCUS FOR 2021

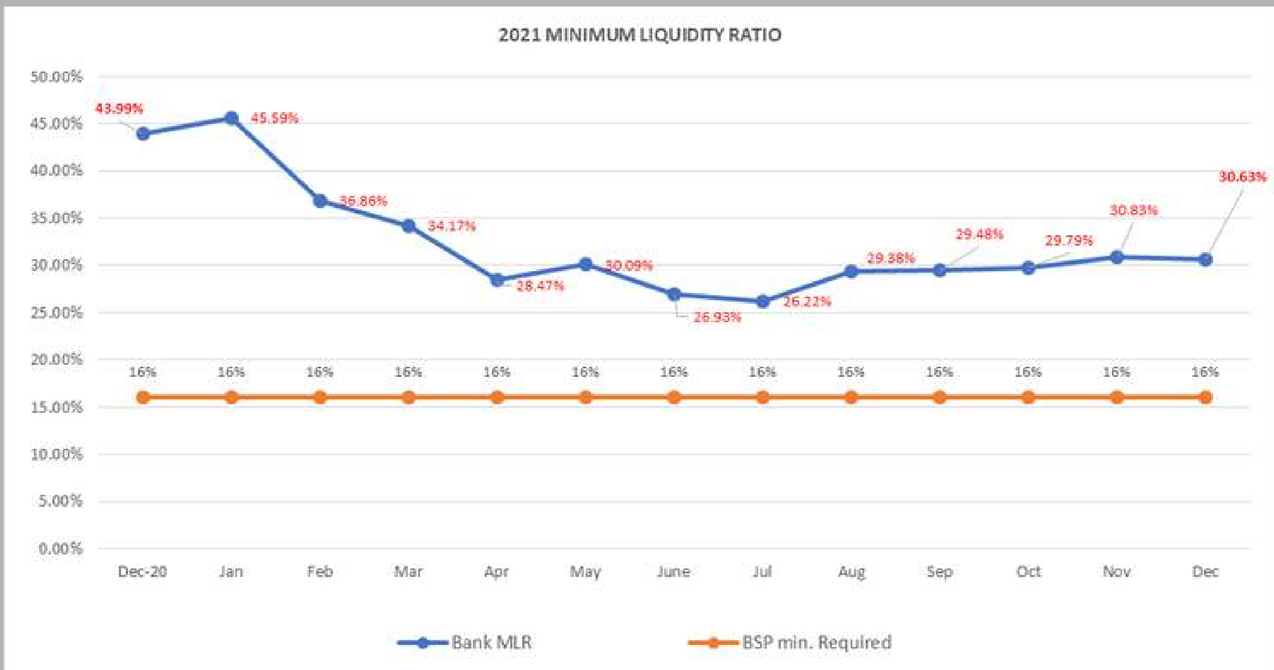
1. Strengthen Spiritual aspect of the people in the bank; Every first Monday of the month, all branches will have branch devotion with invited preachers, and following Mondays of the month will be among branch personnel. With the initiative, we are bringing people closer to our God, and create a dedicated/honest staff and friendly workplace. From January 3, 2021 to present, all branches sustain every Monday devotion.

2. Market focus. As many countries experience one of the most devastating crises, the health crisis, that distresses the economy, we shall focus on our attentions to help the economy recover. i.g Business loans, agricultural loans, transportation and tourism developments, and asset & housing loan.

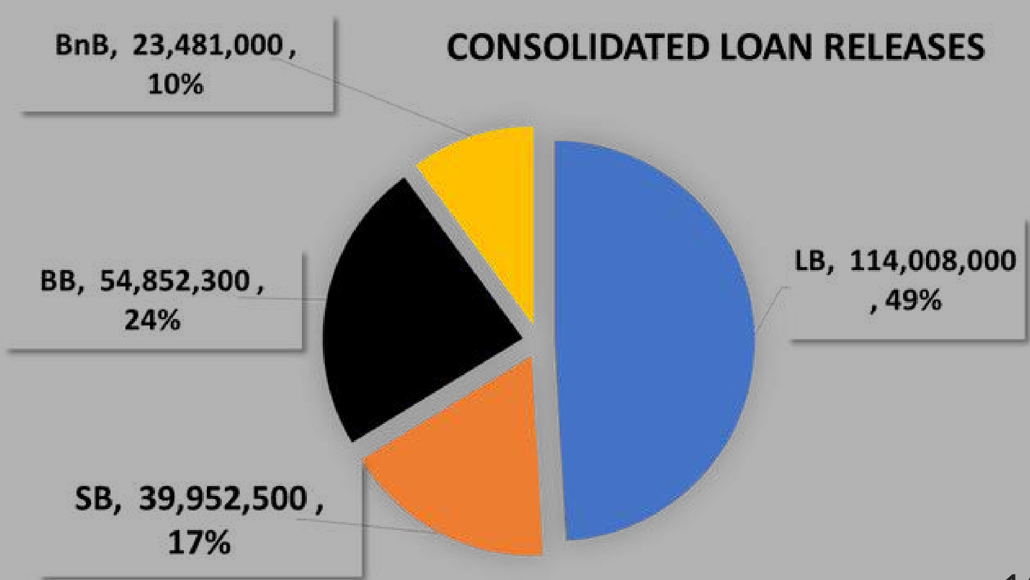
3. Real time bank Financial Data (NxtBank). The bank aims to have real time financial figures and reports that are significant in making decision and setting up strategies. We terminated the services of Oradian 3rd quarter of 2020 and pushed exploring NextBank that started January 2021. As of today, we are on parallel testing between the cyberone system and NextBank. We are now ready to sign anytime the service contract to use Nextbank system which is a cloudbase application.

4. Services. Feasibility study and application for Branching and establishment of Branch lite.

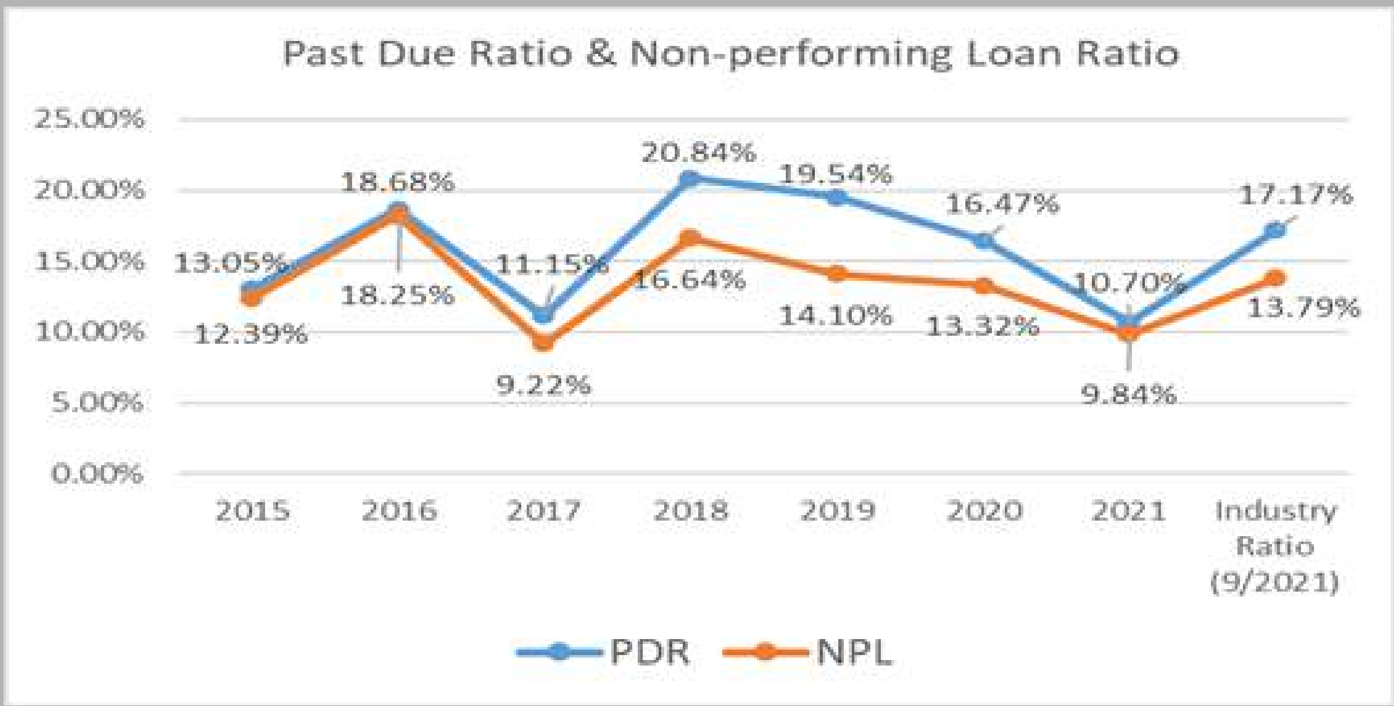
5. Strengthen Liquidity. The bank ended the year with 30.63% minimum liquidity Ratio (MLR). The MLR is 14.63% above the BSP set minimum required of 16%. In absolute amount, the bank has stock of liquid assets amounting to 104.57million (Cash on hand – 3.56million, Due from other banks – 92.29million, and Due from BSP—8.72million).

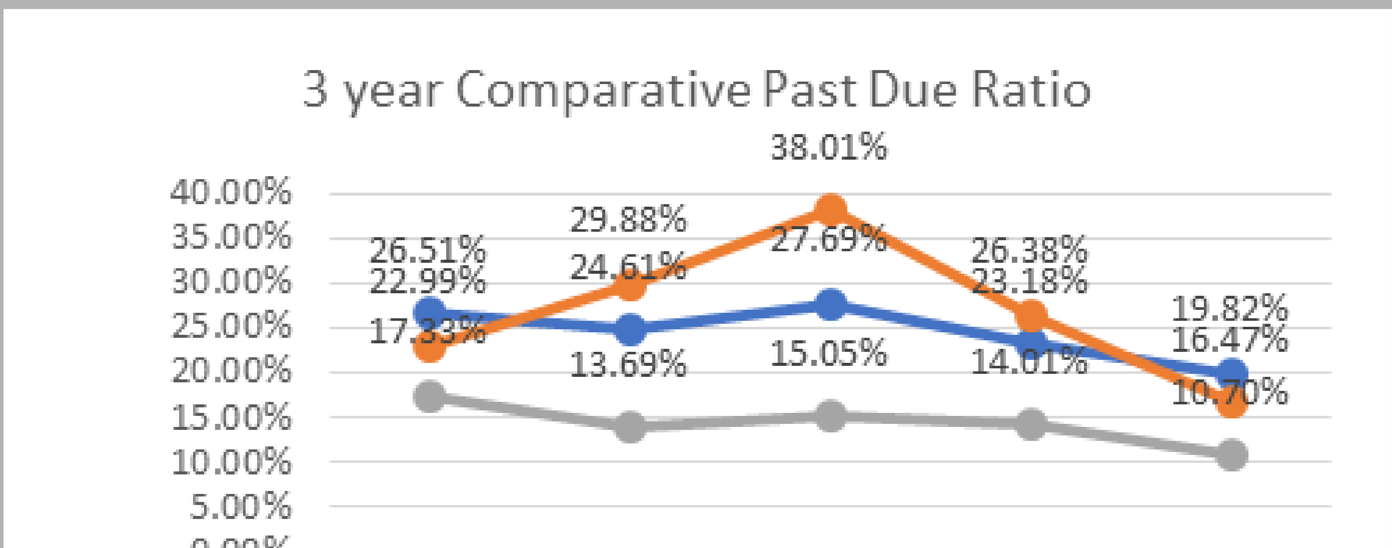


6. Grant more loans to establish a reliable level of loan portfolio that can produce the desired revenue or at least establish 7% to 8% interest spread; The consolidated loan releases year 2021 is 232.29million exceeding target by 4%. The pie chart shows that Lagawe branch nearly deals 50% of the total release of the bank at 49% or 114.00M, followed by Bambang branch of 54.85M (24%), Solano branch of 39.95M (17%), and Banaue branch of 23.48M (10%).

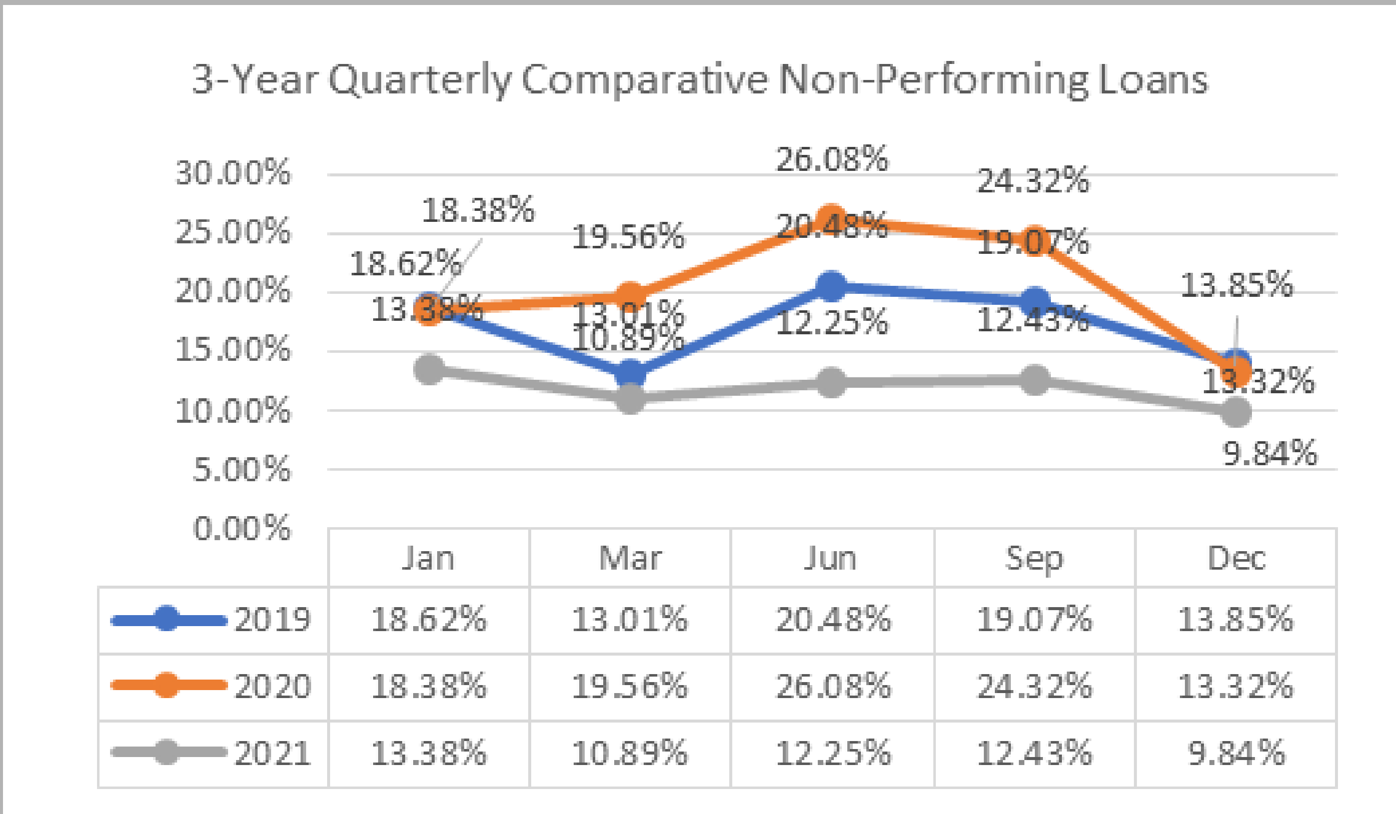


7. Further trim down our PDR to 11% and NPL ratio to below industry ratio. Our PDR and NPLR is below the industry ratio. The Total Past Due Loans (PDL) of the bank reduced from 43.34million in December 2020 to 33.28M end of December 2021. The 10.057M reduction in past due loan significantly improved the past due ratio from 16.47% to 10.70% or a 5.77% decrease for the period. Also, the Non-performing loan reduced from 35.057M in 2020 to 30.626M end 2021 or a 4.431M decrease in absolute amount. Thus, the NPL ratio also improved from 13.32% in 2020 to 9.84% in 2021.





	Jan	Mar	Jun	Sep	Dec
2019	26.51%	24.61%	27.69%	23.18%	19.82%
2020	22.99%	29.88%	38.01%	26.38%	16.47%
2021	17.33%	13.69%	15.05%	14.01%	10.70%



	Jan	Mar	Jun	Sep	Dec
2019	18.62%	13.01%	20.48%	19.07%	13.85%
2020	18.38%	19.56%	26.08%	24.32%	13.32%
2021	13.38%	10.89%	12.25%	12.43%	9.84%

8. Renovation and improvement of all branch office/signages.

Lagawe Branch

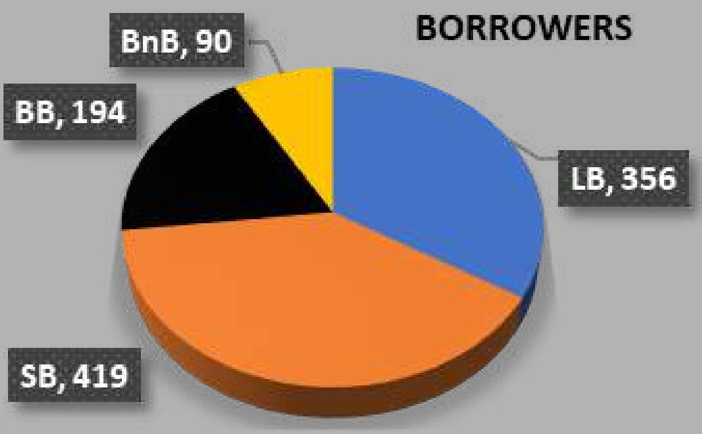
Solano Branch

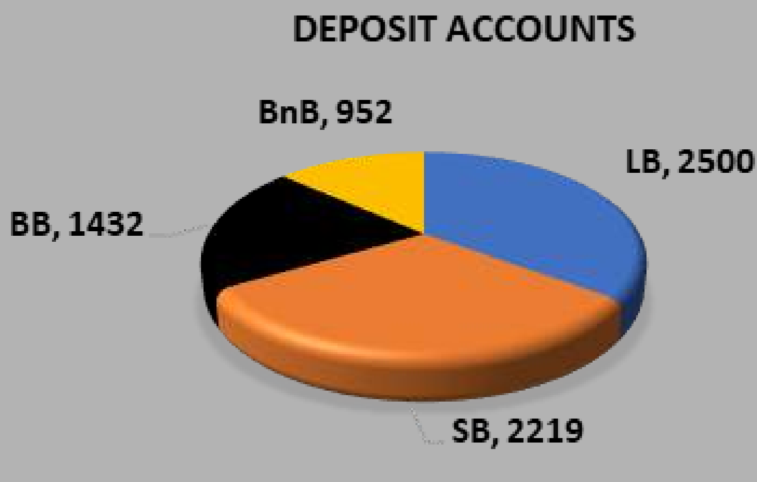
Banaue Branch

Bambang Branch

C) Market Reach

As of December 31, 2021 the bank total number of borrowers is 1,012, increasing by 190 clients or by 23% since December 31, 2020. Deposit ended with 7,103 account or 6% increase compared to December 2020.





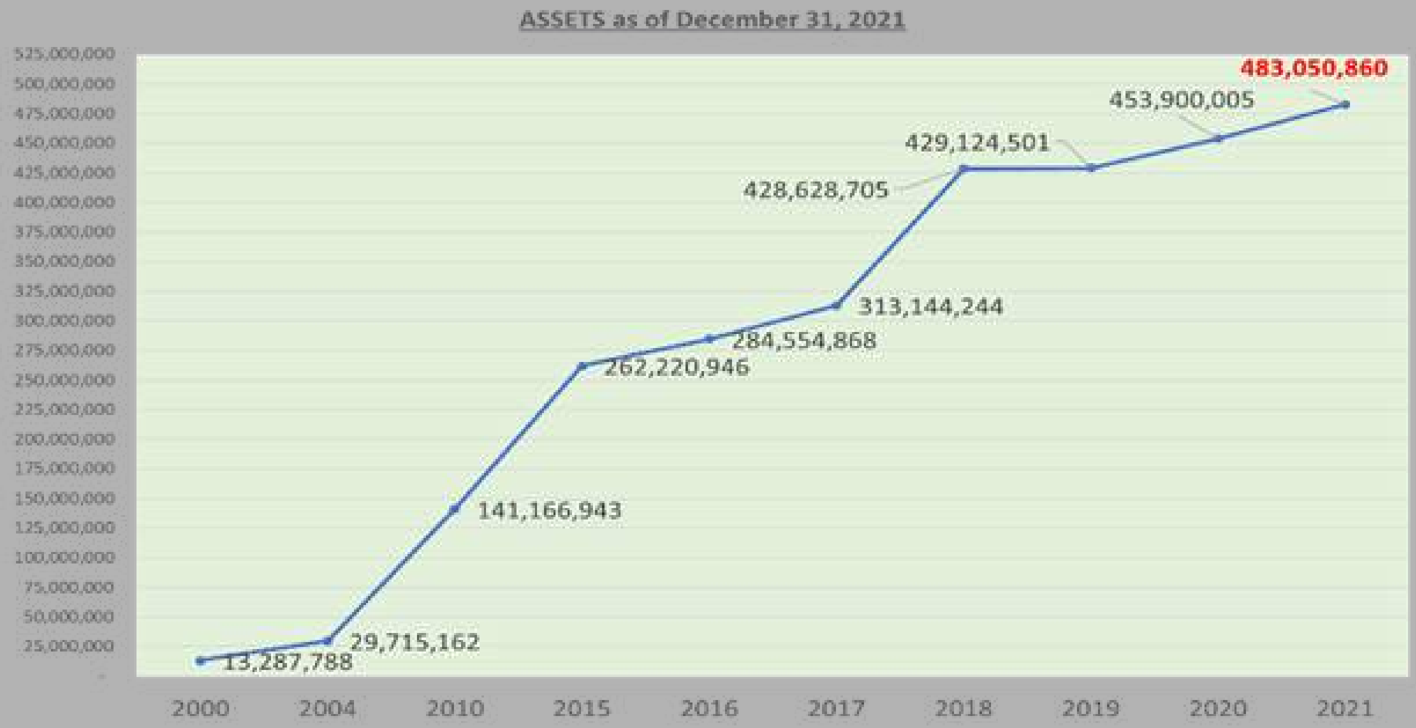
D. BSP Examination. The bank journey for 2020 is really tough and challenging. 2nd quarter of 2021, Bangko Sentral ng Pilipinas conducted their regular examination and it is a welcoming check for us to know how far we coped up in our operations considering the crisis. The results of examination revealed to us our strength, weaknesses and where to improve. The examination gave us a GOOD RATING using the new rating system called Supervisory Assessment Framework (SAFr). The continuing improvement on our capitalization, equity, quality of loans, RBCAR and financial ratios gave us the ability to survive the crisis and continue extending our services to our clients.

E. Corporate Social Responsibility (CSR). 1. Tree planting in two smaller groups – Ifugao and Nueva Vizcaya, 2. Distribution of school supplies (coupon bonds) to at least four schools.

F. Key Financial Indicators

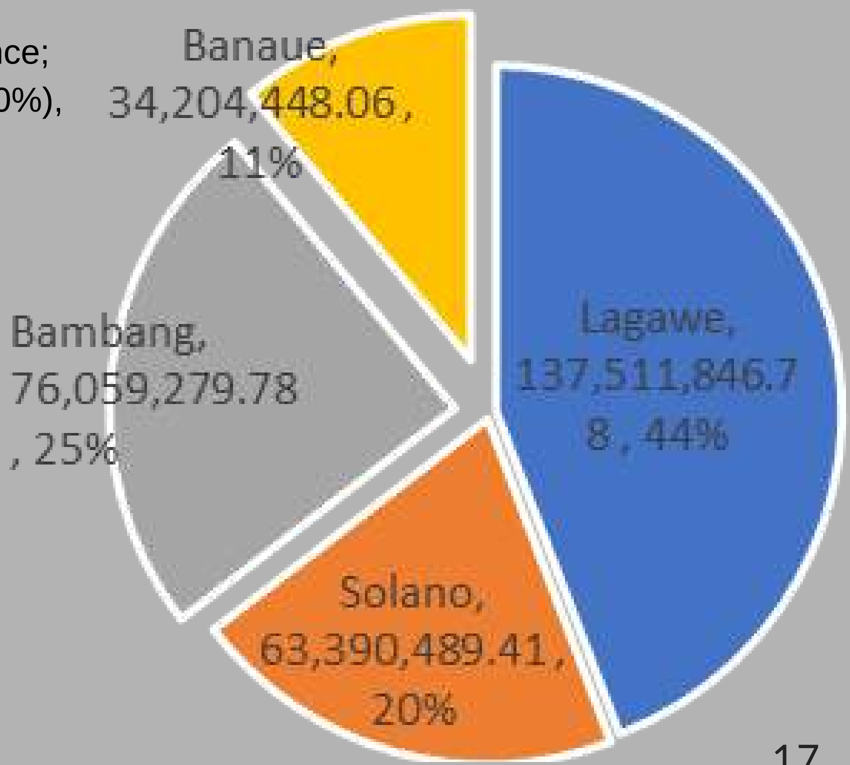
Statement of Conditions

Assets. The consolidated Assets of the bank is now at 483.05M increasing the December 2020 figure by 29.15M. For 22 years of BancoLagawe, the year-end asset marks as the highest figure ever.
The growth is mainly attributed to the growth in deposit portfolio.

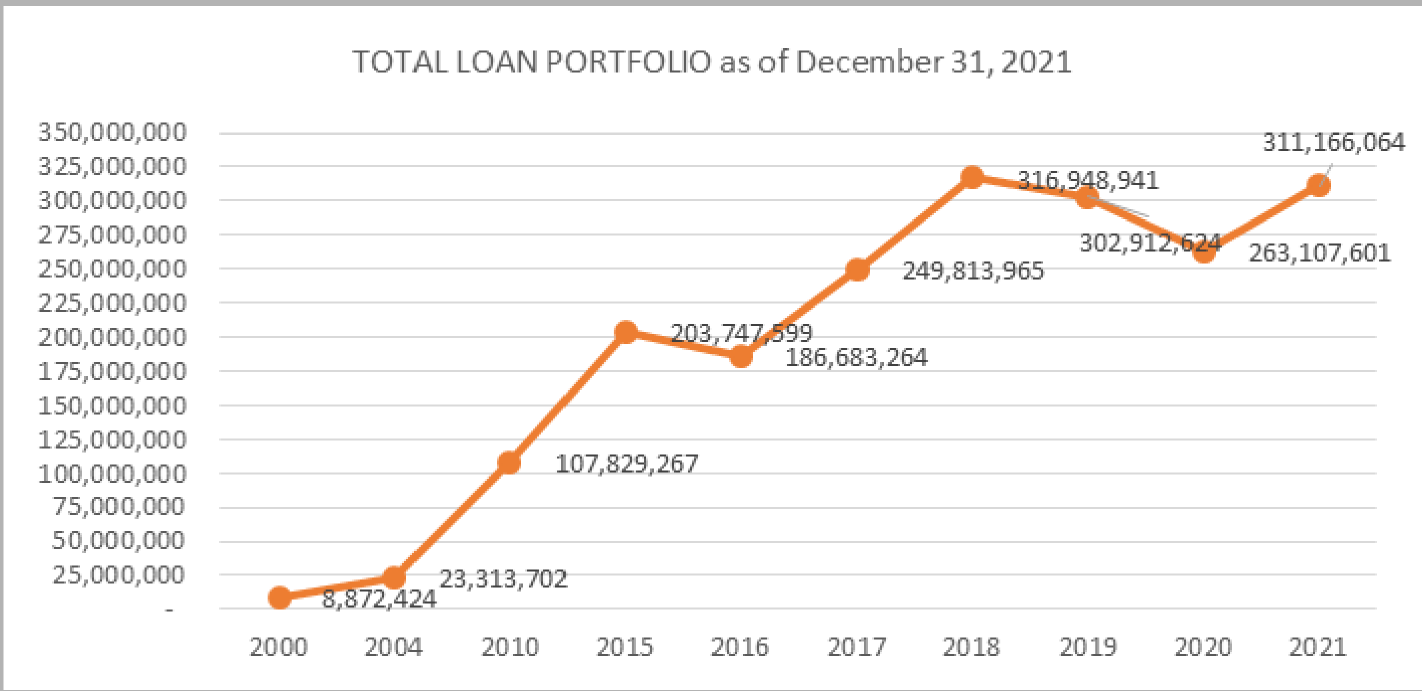


Total Loan Portfolio (TLP). The bank ended the year with P311.16M in total loan portfolio (TLP) or a growth rate of 19% (47.98M) compared to December 2020. As to target year-end portfolio, the bank exceeded target by 6% or 16.504 million.

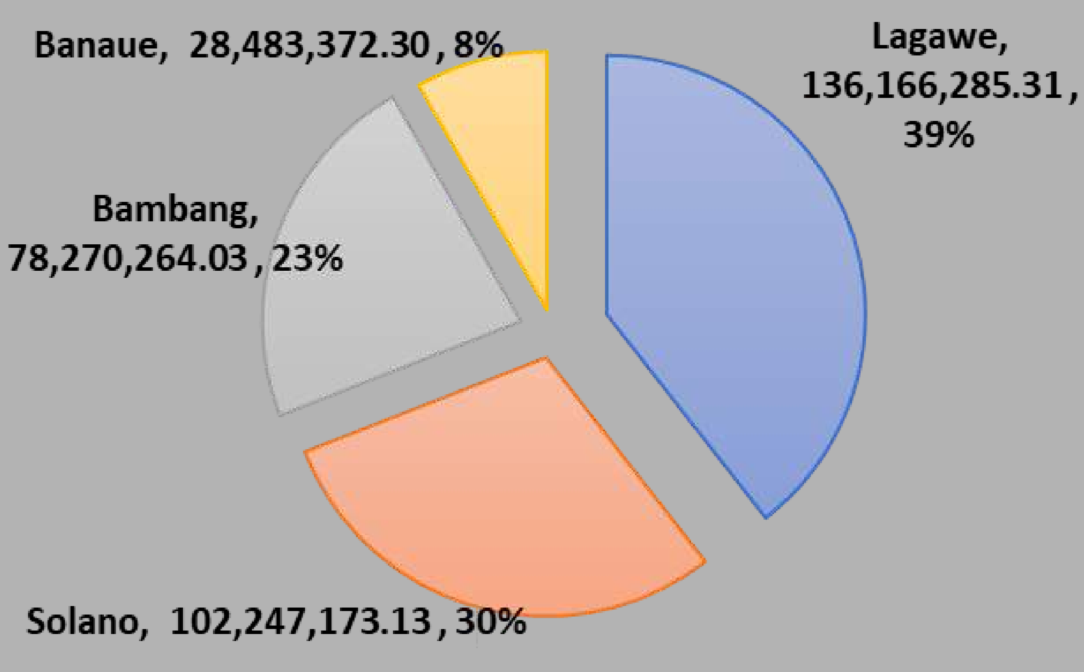
All branches registered positive performance;
Lagawe branch increased by 29.01M (27.0%),
followed by Bambang of 10.82M (17.0%),
Solano of 8.15M (15.0%) and
Banaue branch of 0.08M (0.22%).
Lagawe branch still holds the biggest portfolio of 137.52 million (44.19%) followed by Bambang branch of 76.05M (24.44%),
Solano branch of 63.39M (20.37%)
and Banaue branch of 34.20M (10.99%).

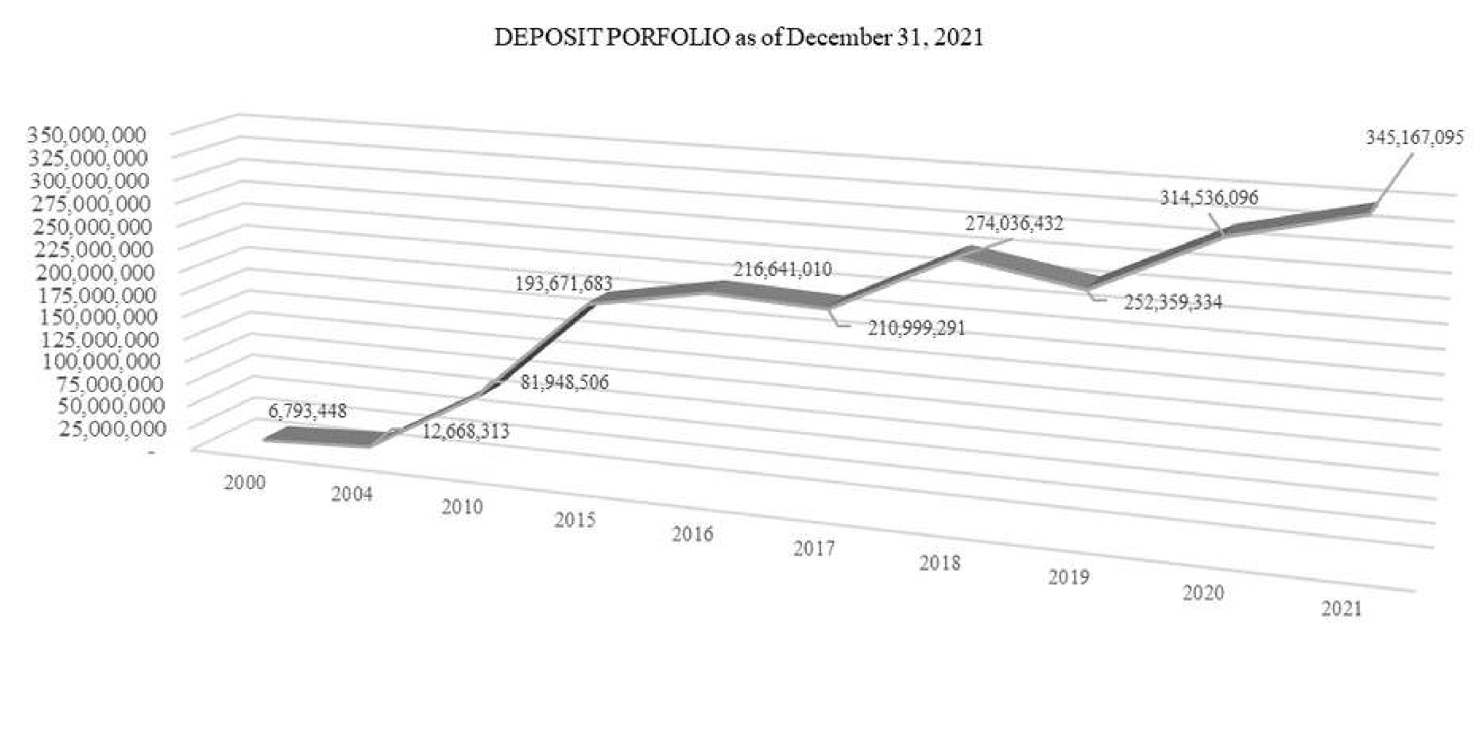


As to loan exposure per product. Business loan has the biggest portfolio of 94.69million or 32.76% of TLP, followed by Asset acquisition of 71.77million or 24.84%, contractor loan of 40.20million or 13.91%, and housing loan of 36.84M or 12.75%.

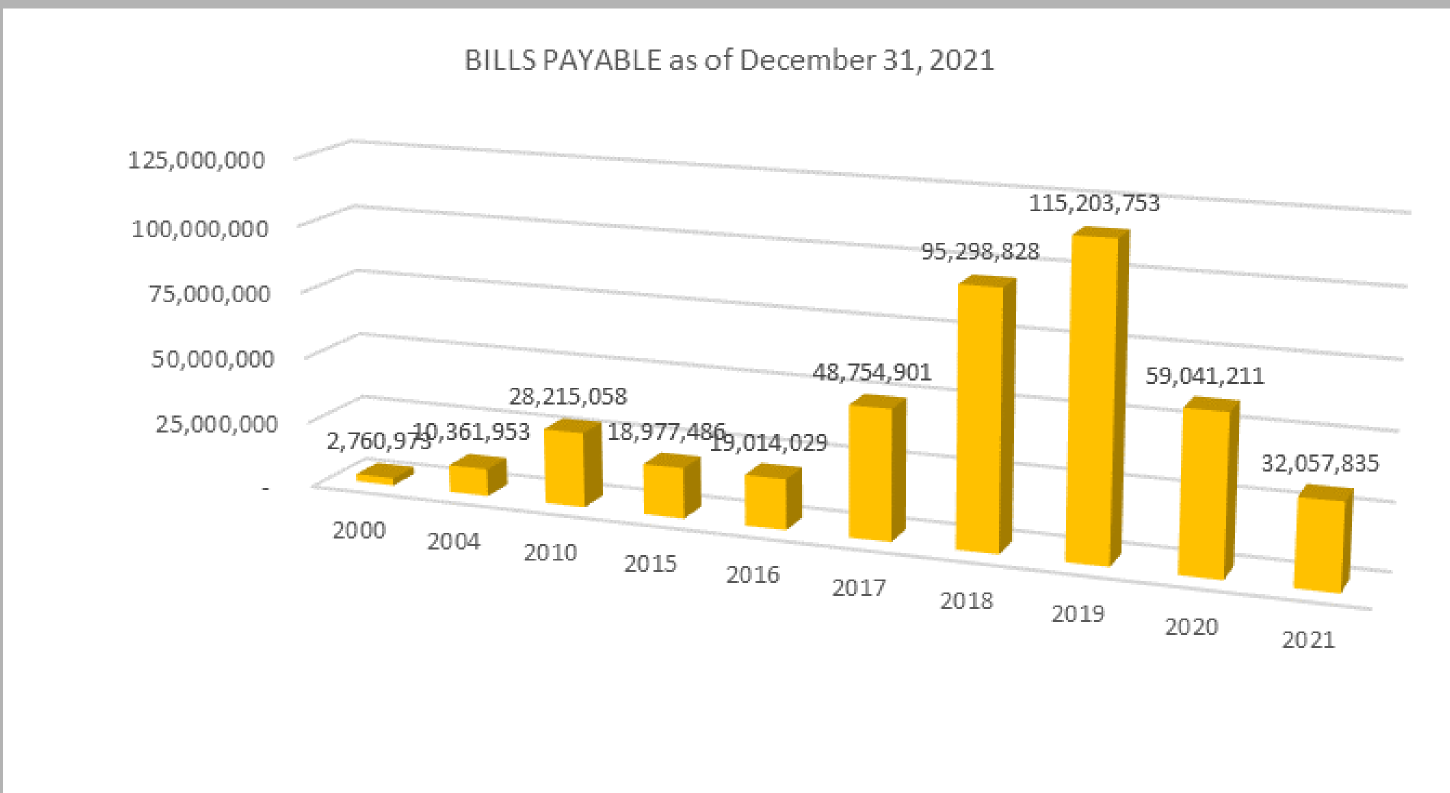


Deposit Portfolio (DP). The bank total deposit portfolio stood at 345.17M registering an increase of 30.63M or by 10%. The overall increase for the past 2 years is 92.80M. The portfolio is registered to be the highest performance of the bank for the past 22 years and we hope to sustain the growth in 2022.

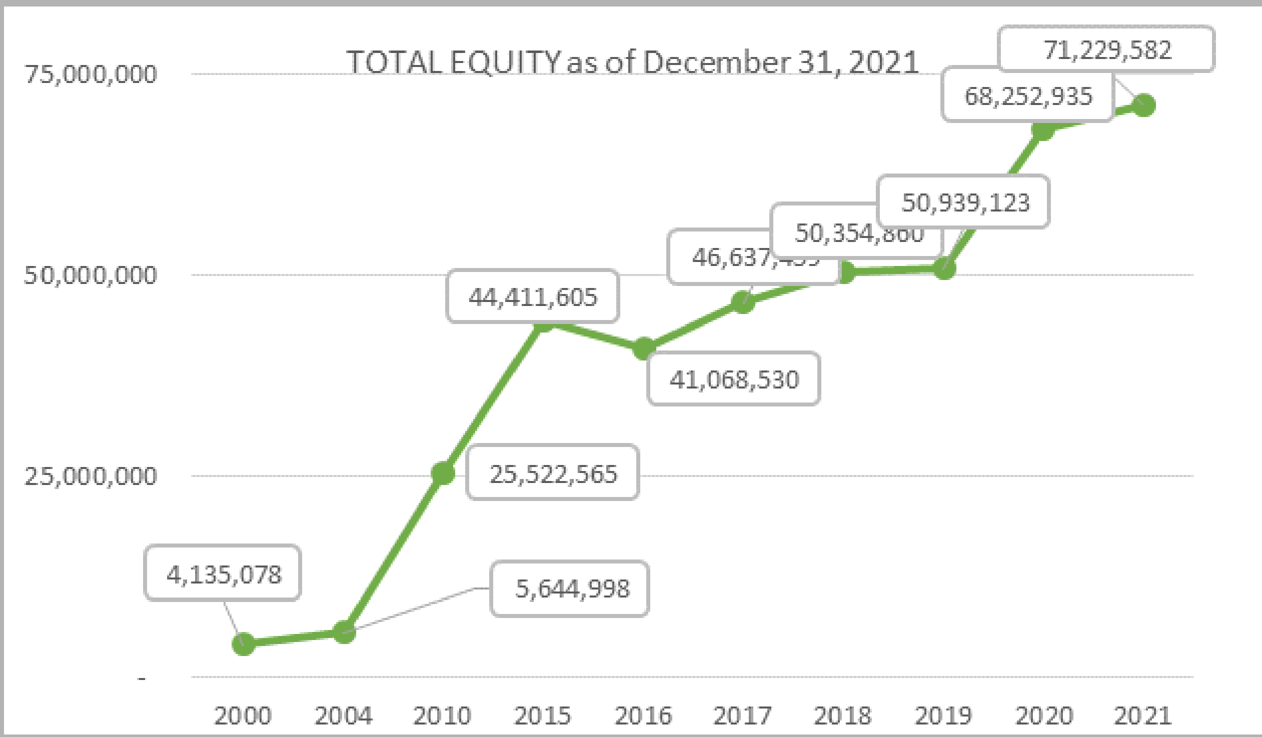




Bills Payable progressively reduced from 115.20M in 2019, 59.02M in 2020 and 32.06 million in December 2021 or a total reduction of 83.14M for the past 2 years. Assuming that we maintain the same balance of 2019, the bank assets could have reached 566.19M. Last November 2021, Landbank of the Philippines approved our 250 million rediscounting line with a term of one (1) year, interest rate ranges from 4.25 to 4.5%. Also, Development bank of the Philippines approved the 30million line, term of 3 years, and interest rate is 2.5%.



The **bank Total Equity** grew by 2.98million, net of the 2.7M declared dividends. Compared to year-end target of 65M, we exceeded target by 6.23M or 10%. The 71M equity of the bank can support an asset level of 700M. As of March 2021, the 50M authorized capital stock was fully paid and the AOI amendments to increase the authorized from 50M to 80M is still in process.



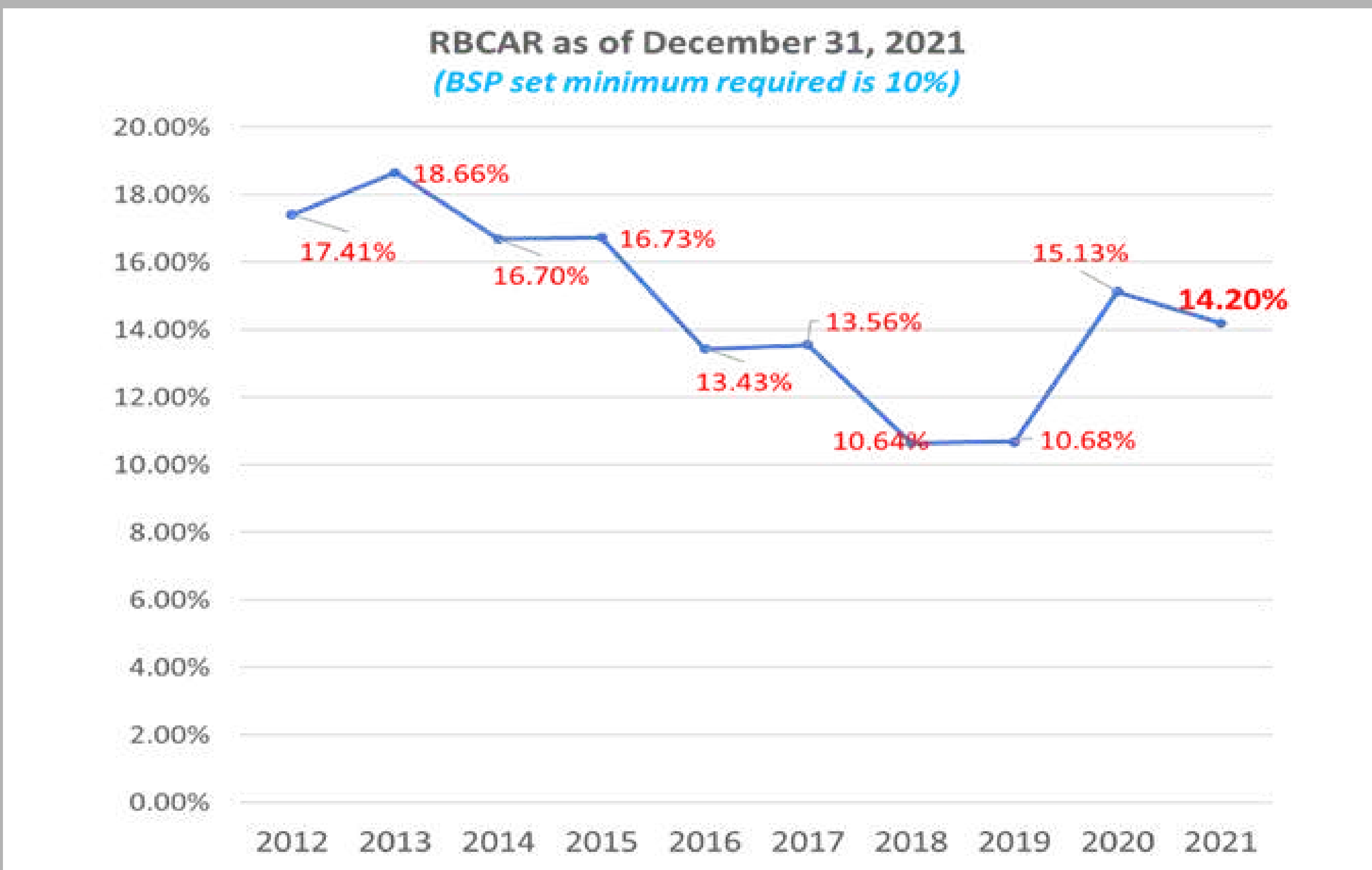
Statement of Income and Expenses

Annual Comparative Statement of Income & Expenses - Key Indicators

	2,000	2,004	2,010	2,015	2,016	2,017	2,018	2019	2020	2021
Operating Income	1,393,228	6,578,916	27,421,128	38,206,691	35,339,498	37,752,854	48,093,103	55,788,723	64,781,885	**55,189,772**
Interest Income	673,815	4,674,382	17,138,672	30,105,647	28,355,320	28,495,773	37,409,177	45,449,529	42,357,445	**43,867,778**
Other income	719,413	1,904,534	10,282,456	8,101,044	6,984,178	9,257,081	10,683,925	10,339,194	22,424,440	**11,321,994**
Operating Expenses	2,083,913	5,829,382	24,098,206	30,801,561	32,470,272	33,119,928	45,214,051	51,636,996	47,019,675	**45,030,990**
Interest Expenses	257,863	1,712,547	5,968,869	7,723,255	8,918,610	8,315,245	13,099,845	14,746,827	12,273,018	**9,900,501**
MOO Expenses	1,826,050	4,116,835	18,129,337	23,078,306	23,551,662	24,804,683	32,114,206	36,890,169	34,746,656	**35,130,490**
Net Income after Tax	**-690,686**	**749,534**	**3,980,350**	**2,956,297**	**231,055**	**3,358,446**	**2,041,400**	**2,131,971**	**9,220,062**	**7,697,371**

The bank's RBCAR as of December 31, 2021 slightly decreased from 15.13% in December 2020 to 14.20%. Still, the year-end RBCAR is above the 10% minimum BSP required.

We will work continuously to sustain the improvement of the key indicators affecting the RBCAR indicators – quality of loans, capitalization, revenue, and Liquidity.



For the year 2022, we will focus on the following:

1.Amendments of our articles of Incorporation and by-Laws – increase in authorized capital stocks,

2.Complete and submit our application for branching/branchlite to BSP,

3.Develop and strengthen the human resource unit as we envision to grow our manpower to 70 employees by 2024,

4.Being more aggressive in extending loans but still not compromising its quality,

5.Study to reconsider the present operational status and location of Solano Branch, and

6.As always, we will look into growing our assets, achieving desired revenue, getting cheaper funds, and minimization of operational cost. Also create a better and affordable terms for our clients.

As the changing times, the Banking industry becomes more and more exposed to numerous risks – credit risk, operational risk, market risk, liquidity risk, interest rate risk, information technology risk, and other risk; such that when not given appropriate controls and solutions will have unfavorable impact on the business.

Addressing all the risk at the same time is not an easy task, but handling it one at a time is a better approach and will produce better results. The new BSP rating system “the SAFr” is a more advances risk based supervisory framework of BSP as it focuses more on the Bank impact in the financial system, risk profile, and the supervisory intensity. This is the picture of BancoLagawe dear stockholders, a bottom-line achieved after continuous struggles, hard work, pains, motivation, teamwork and repeated best efforts.

Expressing my sincerest thanks to the management team headed by their dept. heads for nothing would have been possible without your devotion to the task at hand. And of course, the ever-supportive Board of directors, again and again, I am humbled with the trust and confidence you are giving.

We do not exactly know what the succeeding years will bring. Whatever may come, let us carry on as BancoLagawe family, in the new normal, with great hope, faith and dedication to serving with all our heart, mind and strength. God makes everything beautiful in HIS time.

Congratulations to US! hagiyo Bancolagawe

RISK MANAGEMENT Framework

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, 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.

RISK CHALLENGE AND SIGNIFICANT RISK AREAS IN 2021

Board and Management efforts in 2021 were directed towards sustaining the improvements on the Bank's policies and processes, particularly that of maintaining good asset quality and desired profitability. Hence, the risk exposure on bad loans was sustained and controlled by a past-due reduction program that kept the past due ratio at par with the industry throughout the year.

In addition, great steps were undertaken to further increase the Bank’s capital through cash infusion to strengthen its capital component. With the full payment of the Bank's authorized capital of P50 Million in 2021, the Board and Management is currently working on the application to increase its authorized capital to P80 Million as approved by the Stockholders.

The Board sees strengthening the capital component is a must to ensure that the Bank's assumption of risks associated with attaining the strategic direction of widening market reach to several nearby municipalities is sufficiently covered by its capital.

RISK APETITE 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.LOAN EXPOSURES

1. As to the amount of loan - loan ceiling is P5Million to new borrowers and P10Million to existing core borrowers, except for business loans with a limit of up to P2.5Million. (*Loan exposure and limit approved by the Board in August 2021*)

2. Aggregate limit on large exposures is at 300% of *capital.*

3.As to the purpose of the 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 50% of TLP (provided that PDR of its own portfolio remains single digit)
·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

4.As to Security

·Secured Loans	no limit
·Unsecured Loans	maximum exposure of 35% of TLP

B. 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

C. MINIMUM LIQUIDITY

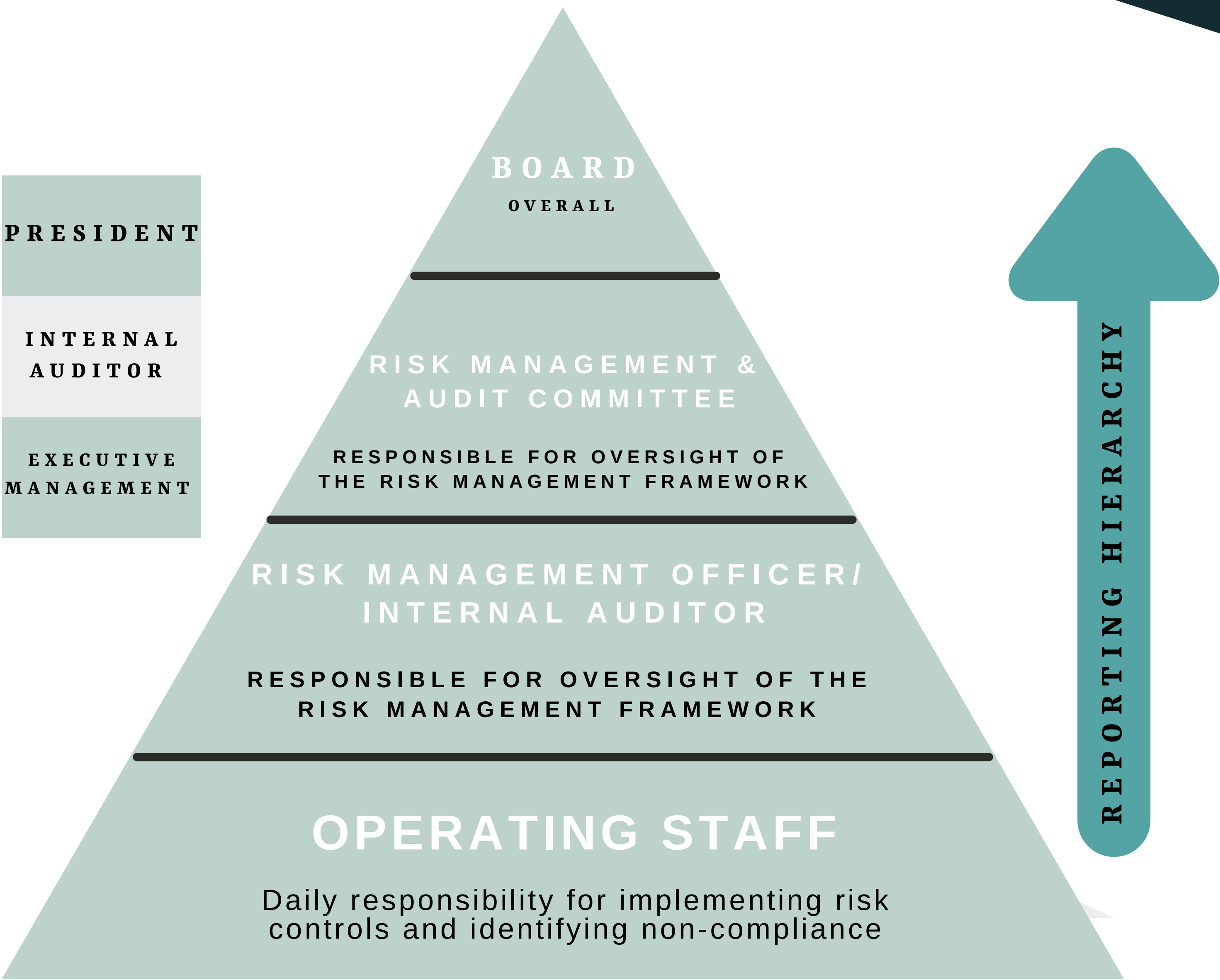
Board approved limit on liquidity is set at 20%.

D. **INTEREST RATE MARGIN**

Board approved minimum interest spread and net interest margin is set at seven (7) percent.

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:

- Setting company goals and business strategies (with the assistance of senior management);
- Maintaining appropriate corporate governance structures; and
- Ensuring appropriate risk management 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 the Risk Threshold). The President will:

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

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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:

- Review, recommend and oversee implementation ofthe risk management process;
- Provide assistance and guidance on risk management;
- Monitor and review the risk management process;
- Review the efficacy of internal controls generally, including the interaction between risk management and internal audit.
- Provide advice to the Board on any non-compliance to the risk management framework; and
- 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

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

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

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:

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

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:

- Challenge executive management and the Board to demonstrate appropriate risk management systems and controls for all risks;
- Conduct regular reviews of the organization to identify new risks, remove old risks, and re-rate current risks;
- Coordinate the risk management process;
- Provide a report on risk management issues to the RMAC at each meeting and to the Board
- Maintain the Risk Register;
- Maintain this Policy; and
- 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) and Compliance Officer of the Bank.

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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 is not mandated, but must include the following items:

- Currency and accuracy of the risk matrix, the RMS, and this Policy
- The level of risk management is embedded in business processes
- Effectiveness of RMS system in monitoring risk
- Impact of risk management framework on:
    a. Seizing business opportunities
    b. Avoiding previously accepted risks
    c. Transferring risks - impact on insurance premiums vs. ability to rely on cover
- Compliance with SEC Corporate Governance Principles
- Compliance and adherence to risk controls and to risk treatment plans
- 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 REPORT

Report to the Board

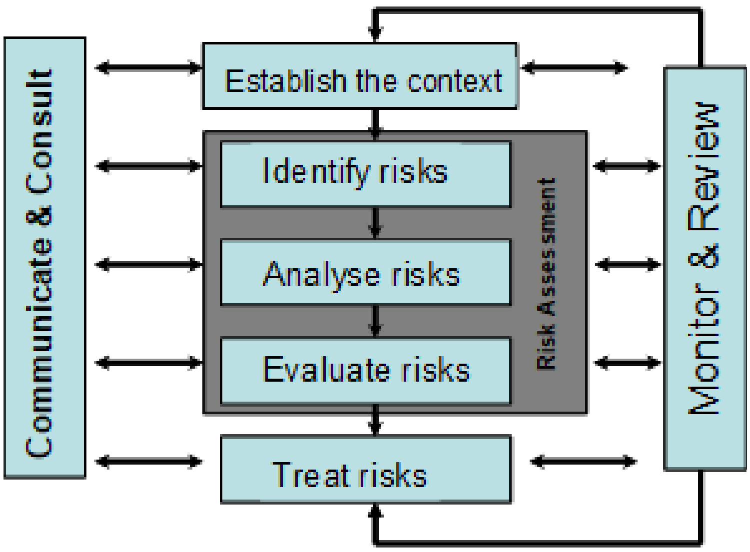
Notwithstanding oversight of the risk management function has been delegated to the RMAC, the Board considers it crucial that it be kept abreast of developments in risk management within BancoLagawe. RMAC Reports are tabled at Board meetings for review and comment.Any actions that arise from a Board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

Risk Management Report

The Risk Management and Audit Committee (RMAC) meets on a quarterly 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.

RISK MANAGEMENT PROCESS

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 the 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 develops 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;

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

(g)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 the 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

(h)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 at all levels with varying responsibilities. 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.

AML GOVERNANCE AND CULTURE

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 preventing 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 employees are aware of their respective responsibilities and carry them out in accordance with the superior and principled culture of compliance; and
5. Full cooperation with AMLC - Fully cooperate with the 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.

ELECTION 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 their 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 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 an appointment, the corporate secretary shall act as the 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

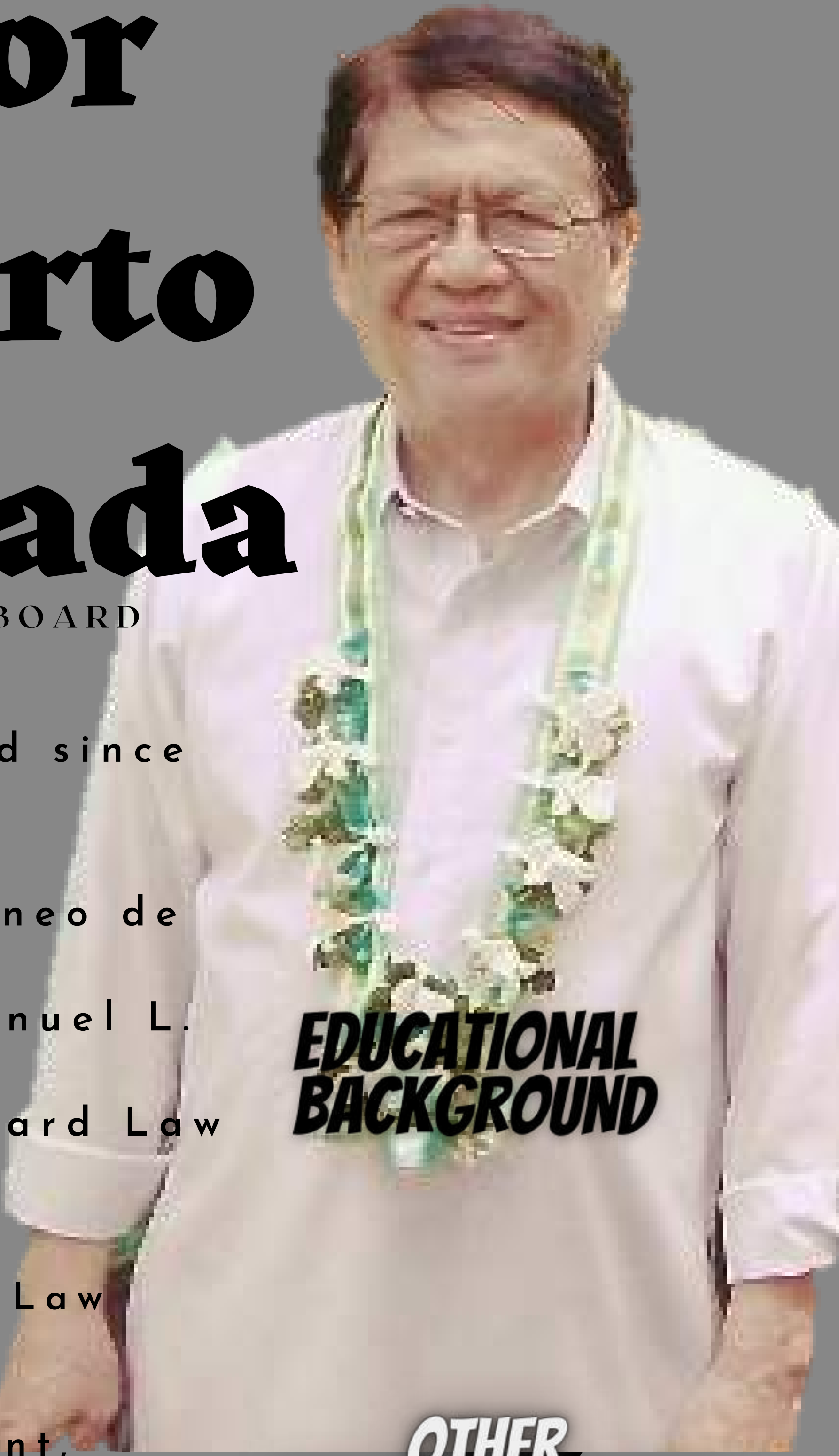
The Chairman of the Board provides leadership in the Board of Directors. His/Her major role is to ensure that the Board is functioning effectively in its task of setting and implementing the Bank's direction and strategies. He is also expected to maintain a relationship of trust and confidence with other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

COMPOSITION OF THE BOARD

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	direct shares held	22 years	8,069.00	0.16%
		PRRM		2,354,306.00	47.09%
WILLIE A. DAMASCO	NON-EXECUTIVE	direct shares held	14 years	163,129.00	3.26%
		LUZVIMINDA ANDRES		41,545.00	0.83%
		ALDERSGATE		359,339.00	7.19%
THERENCE G. BATULON	EXECUTIVE	direct shares held	2 years	44,792.00	0.90%
		JANETTE BATULON		20,000.00	0.40%
MIRIAM RUTH D. TUGAWIN	NON-EXECUTIVE	direct shares held	12 years	254,973.00	5.10%
GLENN ROY V. PARASO	NON-EXECUTIVE	direct shares held	13 years	178,124.00	3.56%
		GEMINI PARASO		3,245.00	0.06%
IRENE B. BINOHLAN	NON-EXECUTIVE	direct shares held	3 years	57,500.00	1.15%
MARLON P. PALOMO	NON-EXECUTIVE	direct shares held	17 years	1,870.00	0.04%
		PARAGON		279,893.00	5.60%
EDICIO G. DELA TORRE	NON-EXECUTIVE	direct shares held	3 years	100.00	0.01%
JAMES G. TAYABAN	NON-EXECUTIVE	direct shares held	11 years	29,432.00	0.59%
		BUENA TAYABAN		19,310.00	0.39%
DEXTER B. DUGYON	NON-EXECUTIVE	direct shares held	1 year	50,261.00	1.01%
		EVA MARIE DUGYON		100,000.00	2.00%
GLORIA C. BULAYO	INDEPENDENT	direct shares held	1 year	20,000.00	0.40%

Senator Wigberto E. Tañada

CHAIRMAN OF THE BOARD



Filipino-87 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 POSITION

-Tañada, Vivo and Tan Law Office, Partner
-Philippine Rural Reconstruction Movement, Chairman of the Board
-Bantayog ng mga Bayani, Chairman of thr Board

PAST POSITION

-House of Representatives, Congressman 1995-2001
-Senate of the Philippines, Senator 1987-1995
-Bureau of Customs, Commissioner 1986-1987
-MLQU- Professor, 1964-1969

Willie A. Damasco

VICE- CHAIRMAN

Filipino-75 years old
Vice-Chairman of the Board
since 2007

EDUCATIONAL BACKGROUND

-Doctor of Medicine,
University of the East

OTHER PRESENT POSITION

-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 POSITION

-MMG Hospital, CEO &
Chairman of the Board 1998-
2002
-Nueva Vizcaya Doctors'
Hospital, Director 1978-1982
-Vizcaya Kidney Center,
Director 1979-1982
-IPH, Director 1995-1998

Therence G. Batulon

DIRECTOR

Filipino-43 years old
Acting President and CEO in 2020

EDUCATIONAL BACKGROUND

-Bachelor of Science in Accountancy, St. Mary's University

PAST POSITION IN THIS BANK

-Bookkeeper
-Accountant
-Administrative Officer
-Chief Accountant
-Assistant Branch Manager
-Branch Manager
-AVP/Head of Technical Support Unit
-Vice President /Head of Operations & Marketing

OTHER PRESENT POSITION

-NVAT-Director since 2020
-CCVRB-Treasurer since 2019
-KOINONIA Church-Vice Pres since 2018

PAST POSITION

-PCCI-Treasurer 2017
-PCCI-Vice Pres 2018

Miriam Ruth D. Tugawin

DIRECTOR

Filipino-61 years old
Director since 2020

EDUCATIONAL BACKGROUND

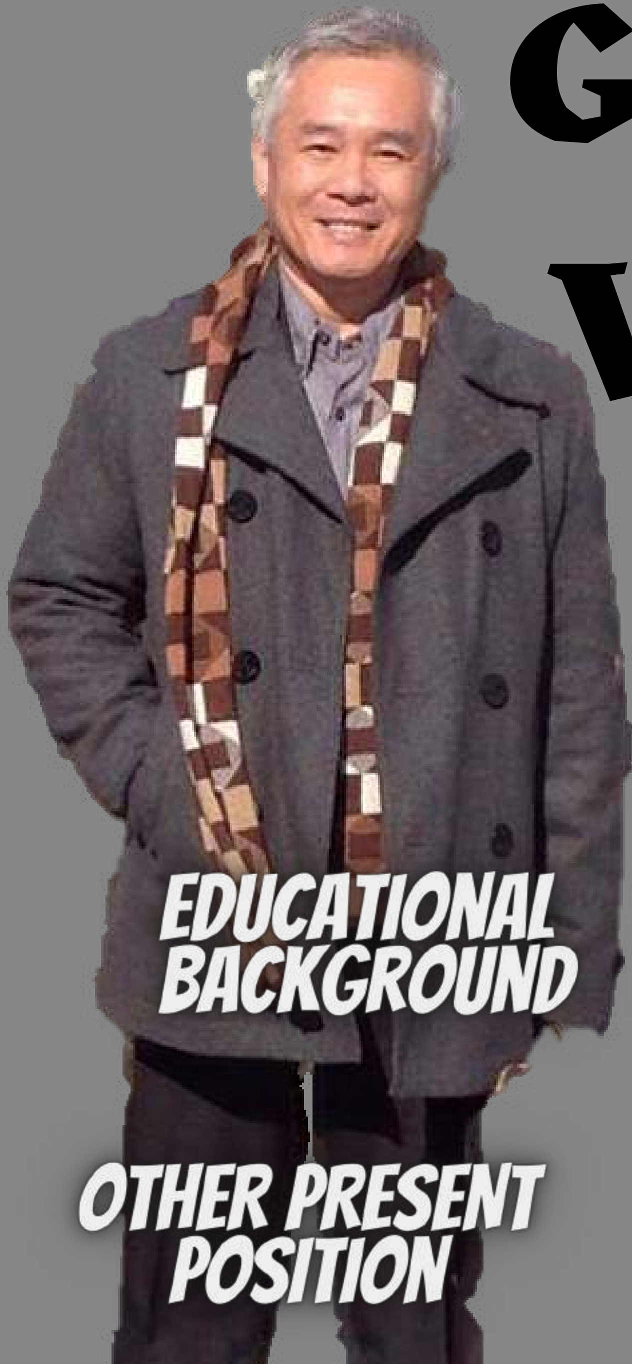
-Bachelor Of Science in Social Work, University of the Philippines-Diliman
-Master of Arts in Women and Development, University of the Philippines-Diliman

PAST POSITION

-BancoLagawe President and CEO 2009-2019
-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

Glenn Roy V. Paraso

DIRECTOR



Filipino-59 years old
Director since 2008

EDUCATIONAL BACKGROUND

-Doctor of Medicine, University of the East
-Master in Public Health, University of Wales

OTHER PRESENT POSITION

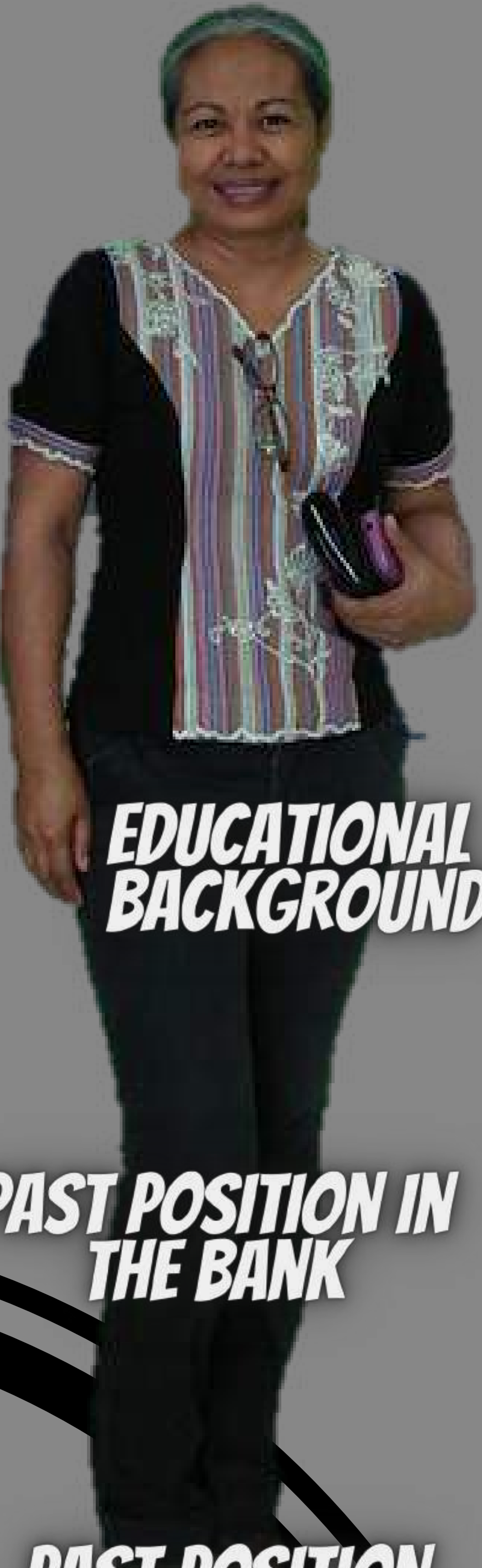
-Mary Johnston Hospital, Executive Director

PAST POSITION

-Cooperative Movement to Encourage Vasectomy, Director 2005-2013
-General Board of Global Ministries, Director 2015
-Resources for the Blind, Inc. Director
-KKFI, Director 2017

Irene B. Binohlan

DIRECTOR



Filipino-62 years old
Director since 2018

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

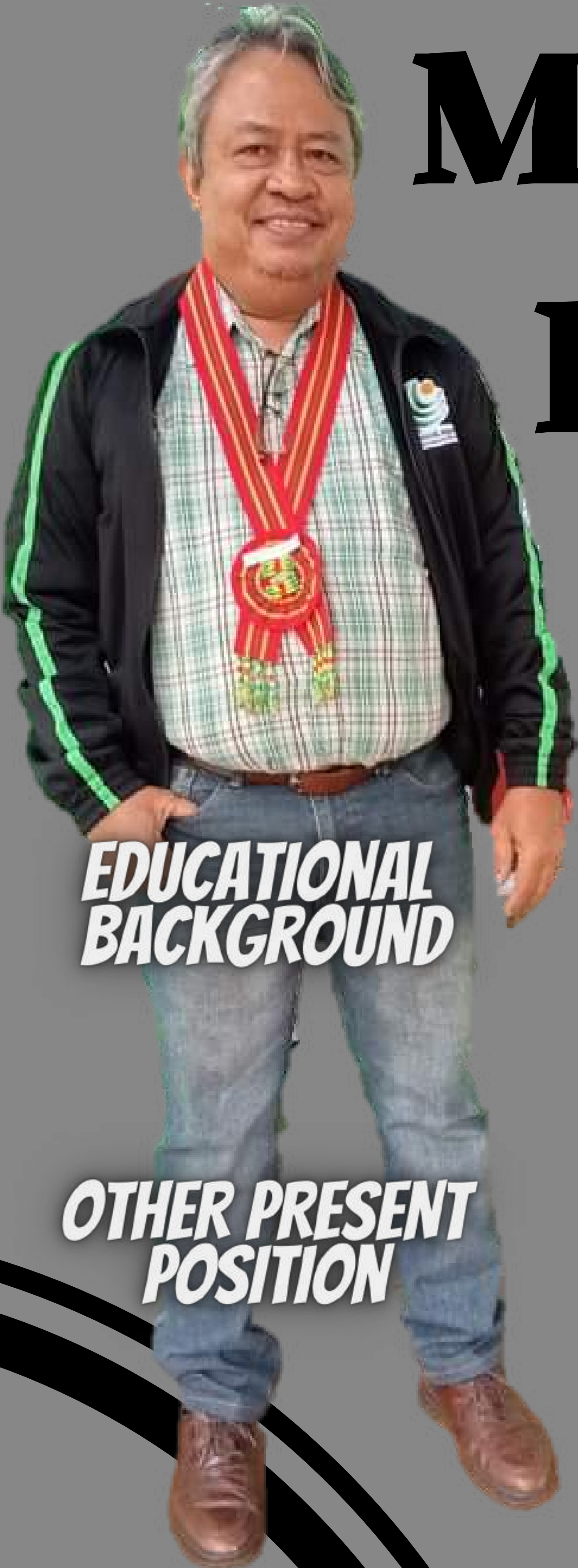
PAST POSITION IN THE BANK

-Cashier
-Branch Manager
-Assistant Vice President
-Vice President
-Senior Vice President
-Head of Credit Management Department

PAST POSITION

-Philippine Rural Reconstruction Movement, Community Organizer and Area Coordinator for Northern Ifugao 1989-1994
-Philippine Rural Reconstruction Movement, Special Assistant for Operations 1994-1995

Marlon P. Palomo



DIRECTOR

Filipino-59 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 POSITION

-International Network of Alternative Financial Institutions (INAFI), Executive Director
-Millenium Harvest Credit Corporation, Chairman
-KooperatibangLikas ng Nueva Ecija, Chairman
-Philippine Rural Reconstruction Movement- Nueva Ecija Chapter, Chairman
-Philippine Rural Reconstruction Movement, Vice President
-Vizcaya Fresh, Inc.- Chairman

PAST POSITION

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

Abundio Edicio G. Dela Torre

DIRECTOR

Filipino-78 years old
Director since 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 POSITION

-Philippine Rural Reconstruction Movement, Vice Chairperson
-Education For Life, Chairperson
-GMPI, Global Mindanaw, Chairperson

PAST POSITION

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

James G. Tayaban

DIRECTOR

Filipino- 59 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 POSITION

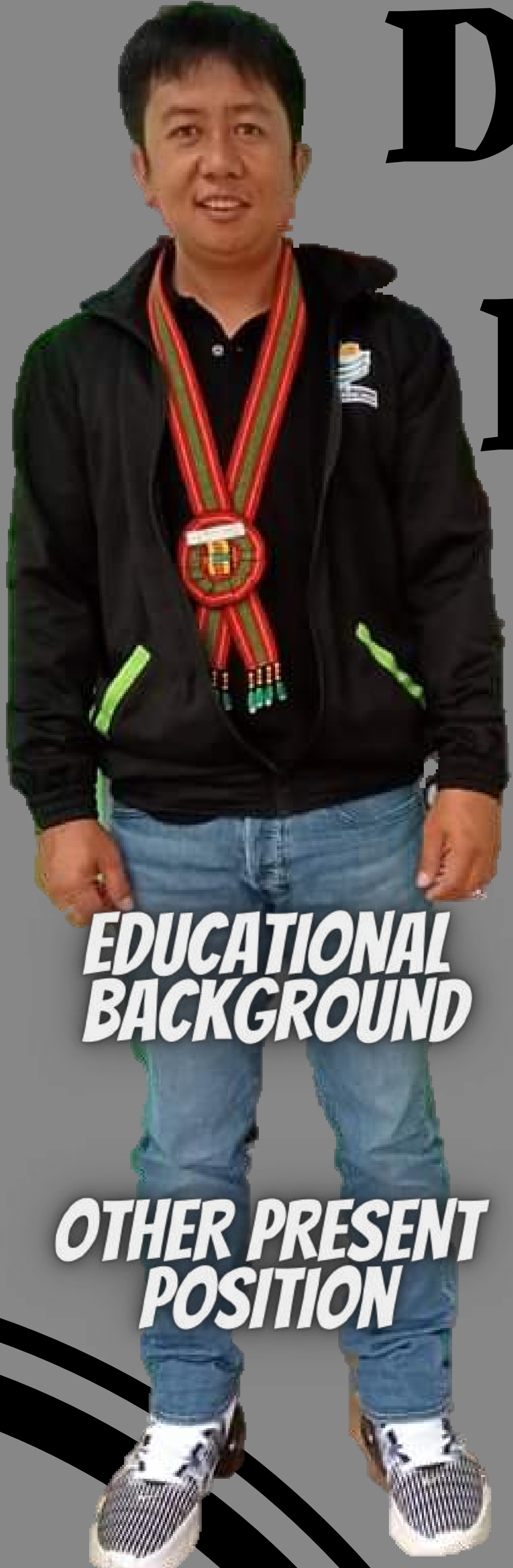
-Mabato-bato Indigenous People Organization, Chairman
-Lamut Federation of IPOs, Municipal Convenor
-Ifugao Elders Alliance, Vice Chairman
-DENR-CAR, Assisting Professional-Contractual

PAST POSITION

-Save the Ifugao Terraces Movement, Treasurer 2003-2016
-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

Dexter B. Dugyon

DIRECTOR



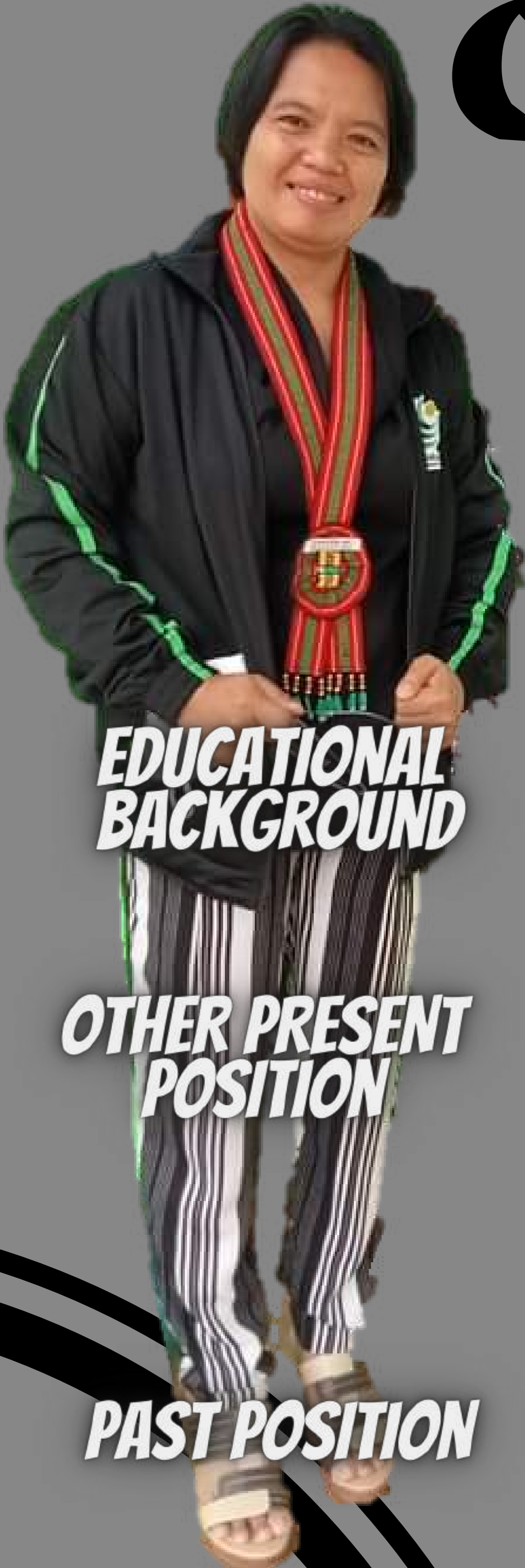
Filipino-44 years old
Director since 2021

EDUCATIONAL BACKGROUND

-Bachelor of Science in Civil Engineering - Saint Mary's University

OTHER PRESENT POSITION

-Rasco Farm- Proprietor



Gloria C. Bulayo

INDEPENDENT DIRECTOR

Filipino-44 years old
Independent Director since 2021

EDUCATIONAL BACKGROUND

-Bachelor of Science in Accountancy, Saint Mary's University

OTHER PRESENT POSITION

-Bulayo Drugstore, Proprietor
-Joshkhurt Pharmacy, Proprietor

PAST POSITION

-Moral Nanoz and Assoc - Junior Editor 2000-2001
-Tam-an Cooperative- Posting Clerk, Admin and Finance Officer, Internal Audit.
-Banaue Mountain Resort- Posting Clerk, Bookkeeper
-Joshkhurt computers and enterprises- Manager

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.

RMAC members composed of Chairman Gloria C. Bulayo and members, Director Miriam Ruth D. Tugawin, Director Marlon P. Palomo and Director Irene B. Binohlan.

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.

b. The Corporate Governance Committee has the following general duties and responsibilities:

1. Ensure effectiveness of the Board and due observance of the corporate governance principles and guidelines;

2. Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board;

3. Oversee periodic performance evaluation of the Board and its committees;

4. Take leadership in shaping good corporate governance of the Bank.

Corporate Governance Committee members are Chairman Glenn Roy V. Paraso, and members - Director Gloria C. Bulayo and Director Abundio Edicio G. dela Torre.

DIRECTOR'S ATTENDANCE

Board of Directors' Meetings

During Fiscal Year March 2021-February 2022, the following members of the Board of Directors have a summary of attendance as follows:

Name of Directors	Board of Directors	Risk Mgmt & Audit Committee	Corporate Governance Committee
Number of Meetings	12	4	3
Wigberto E. Tanada	92%		
Willie A. Damasco	100%		
Therence G. Batulon	100%		
Miriam Ruth D. Tugawin	100%	100%	
Glenn Roy V. Paraso	100%		100%
James G. Tayaban	92%		
Dexter B. Dugyon	92%		
Abundio Edicio G. dela Torre	100%		100%
Marlon P. Palomo	100%	100%	
Irene B. Binohlan	92%	100%	
Gloria C. Bulayo	100%	100%	100%

THERENCE G. BATULON

PRESIDENT AND CEO

Filipino- 43 years old
Acting President/CEO since 2020

EDUCATIONAL BACKGROUND

-Bachelor of Science in Accountancy, St. Mary's University

OTHER INFORMATION

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.

OLIVIA G. GABUL, CPA

ASSISTANT VICE PRESIDENT/FINANCE AND ADMINISTRATION HEAD

Filipino- 44 years old
AVP/Finance & Admin Head since 2018

EDUCATIONAL BACKGROUND

-Bachelor of Science in Accountancy, UC- BCF (University of Cordilleras)

OTHER INFORMATION

Joined the Bank in 2012 and served as Chief Compliance Officer from 2012 to 2017.

ANABEL A. GONZALES, MBA

HEAD OF MARKETING DEPARTMENT

Filipino- 46 years old

EDUCATIONAL BACKGROUND

-Bachelor of Science in Commerce Major in Banking & Finance

OTHER INFORMATION

Joined the bank in 2016 as Branch Manager until 2020.

DIANA DEAN C. ATIENZA

HEAD INTERNAL AUDITOR AND CHIEF COMPLIANCE OFFICER

Filipino- 40 years old
HIA/CCO since 2018

EDUCATIONAL BACKGROUND

-Bachelor of Science in Accountancy, St. Mary's University

OTHER INFORMATION

Joined the Bank in 2017 as Internal Auditor, assumed the position of Head Internal Auditor and Chief Compliance Officer in 2018.

OFELIA M. DECORO

HEAD OF BRANCH OPERATIONS

Filipino- 42 years old

EDUCATIONAL BACKGROUND

-Bachelor of Science in Commerce Major in Banking & Finance

OTHER INFORMATION

Worked in the bank as:
-Micro Finance Officer 2002 – 2006
-Cashier 2007; Loan Officer 2008 – 2010
-BM 2011 – 2014; ARO – 2015
-RMARS Head 2016 – 2017
-CRO 2018 – 2019;
-BM 2019 - Present

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. A separate assessment is done 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 employees. Each of the Bank's employees including the Board of Directors and Senior Management Officers is provided with their corresponding needed training, training provider(s), the projected date of training, and the estimated costs for each training.

The training 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

The 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 that shall assist the bank in registering the program with the BIR.

Early Retirement Benefit

In recognition of employee's commitment as determined by his/her length of service with the bank, the bank designs an Early Retirement Benefit to employee who chose to retire after serving the bank for at least twenty-five (25) years “unbroken service” even without reaching the mandatory retirement age of 60 years old and shall be entitled to lump sum retirement pay as in the Normal Retirement Benefit.

Separation Benefit

In recognition of employee tenure with the bank, bank employee who voluntarily resigns from BancoLagawe with at least fifteen (15) years of “unbroken service” shall be entitled to a lump sum separation benefit. The benefit shall be computed = Latest salary x 0.5 x no. of years in service.
Provided, however, that any employee who is involuntarily separated from the service of the bank for reasons such as retrenchment, redundancy, death or similar company policies shall be entitled to the Normal Retirement Benefits. However, any employee whose service is separated/terminated by the bank for cause due to the employee's own fault, misconduct, dishonesty or fraud shall forfeit all his benefits.

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 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.

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, it shall be based on the recommendation of the Head of Human Resources and 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 competencies 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 candidates (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 the 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 positions 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 TRANSACTION

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.

POLICY

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 P1,500,000.00 . 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.

MATERIAL RELATED PARTY TRANSACTIONS:

Following are the 2021 Material Related Party Transactions consisting of credit accommodations:

1. Charita Bolla - loan accommodation with original amount of P1,614,000.00; (sister-in-law of Ventura Bolla)

2. Kenneth Codamon - loan accomodatioN with original amount of P2,300,000.00;(brother-in-law of Dexter B. Dugyo

INTERNAL AUDIT AND COMPLIANCE FUNCTION

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 Management 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 Pr

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. resident/CEO and the staff of the bank.

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

- Prepare and submit an annual audit plan to the board for approval
- Prepare and submit monthly audit report to the RMAC for approval
- Report audit findings to the RMAC/Board during the monthly meetings
- 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
- Supervise and maintains the bank's system of internal control and ascertains that it is adequate and functioning properly.
- Examine and recommends the establishment of appropriate internal controls and appropriate measures to ensure that established policies, procedures and controls are followed.
- 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.
- Assess the accuracy, reliability and effectiveness of the management and financial information system, including the electronic information system.
- Conduct periodic confirmation of account with bank depositors and borrowers
- Access/obtain documents that are necessary to performing the duties and responsibilities of an Internal Auditor.
- 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 staffwill 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.

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 RESPOSIBILITIES 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

Tree Planting

Corporate Social Responsibility

BancoLagawe aimed to contribute to societal goals by engaging in tree-planting activities in locations coordinated with the Provincial Environment and Natural Resource Offices of Ifugao and Nueva Vizcaya. The Bank also supported the District Offices of the Department of Education through donation of school supplies to selected public schools located in the same area.

Donations

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 overall 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 training and seminars, interaction with experts, and regulatory personnel knowledgeable of 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 enables 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 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 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 SMis "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, the 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 on 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 training/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 do 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 with the borrower, the Bank assigns the job to another Loan Account Officer/ Bank 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 a designated IT department to handle the entire system;

b)All computers being utilized for storing and retrieving 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 a 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 to 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 decision 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 the 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 allow 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 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 the 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 a 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**
  - Policies

    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 the 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 an account on the affidavit of loss for that matter;

- Procedures

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 the term of deposit/loan, interest rate, service charges, penalties, etc.;

4) Explains to the customer that any changes in the 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 the arms-length transaction, i.e., terms and conditions being applied to the 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 the 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:

DOSRI LOAN

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 includes a provision to strictly observe security and confidentiality of customer information;

c)All brochures, flyers, or information posted through the monitor of ATM if any, and the 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 contains policies on customer service and protection of client information;

2)Prepares and implement a 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 the 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 with 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 a 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 solicitations 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-line personnel who handle customer service

c)Customer Assistance Officer (CAO)

1)Conducts investigation for any complaint against an employee;

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 the 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 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 education and awareness program that will benefit its customers, such as:

1) contribute to the improvement of the 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 that 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 the 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.

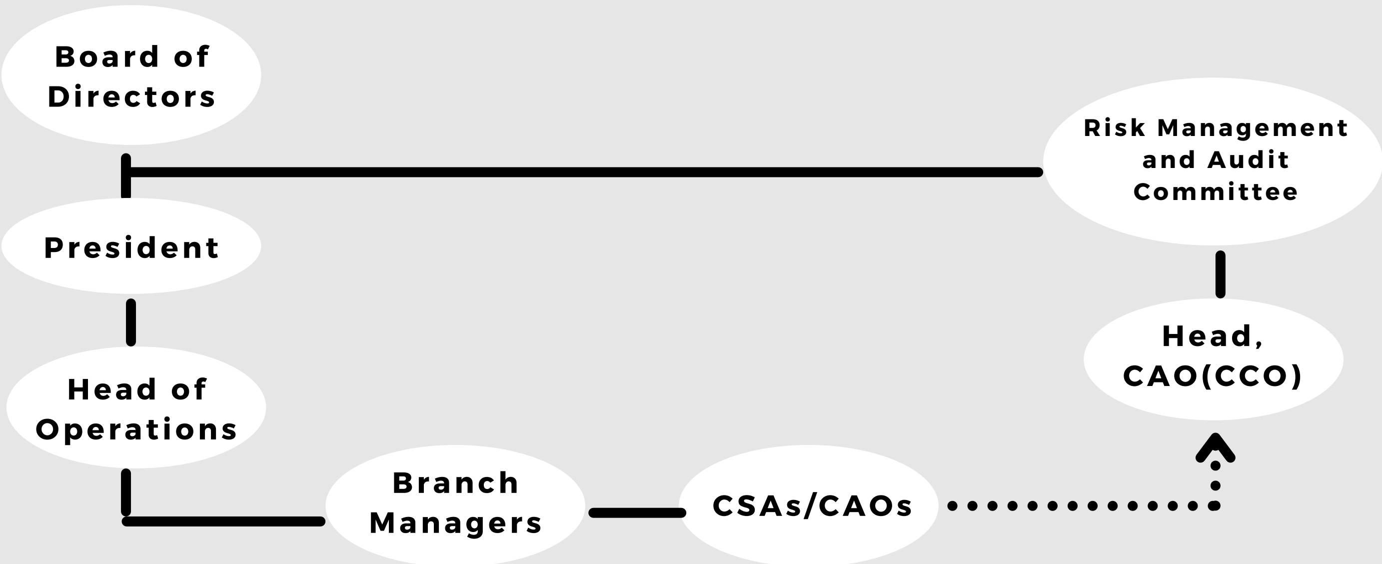
- **Customer Service Assistants- (CAOs)**

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

2)Keeps track, identifies, and analyzes the 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 advanced 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 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 employees, including the Board of Directors and Senior Management Officers, is provided with their corresponding needed training, training provider(s), the 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 CHANNEL

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 a Customer Assistance Help-Desk with cellphones 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 lanes for senior citizens, customers with disabilities (CWDs), pregnant women, women with children as part of its prioritization scheme in serving customers.

The Bank shall also provide an 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

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.

STEP	ACTION/S TAKEN BY BANK STAFF	RESPONSE TIME	PERSON IN CHARGE	FORMS
1.Receiving and Acknowledgement				
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	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	
d.Complaints/Inquiry/ Request made thru e-mail	Sends an initial acknowledgement e-mail	Within the day of receipt	Customer Assistance Officer	
2.Processing and Resolution				
	Investigate the complaint or request. • If a branch personnel's attitude or character is involved in the complaint, the Branch CAO shall personally discuss the matter with the concerned employee; • If a Bank's process/procedure or property is involved in the complaint, the CAO shall course through the complaint to the Head CAO	Within 2 days	Customer Assistance Officer	
	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 a basis for recommending solutions	Within 4 days	Customer Assistance Officer HCAO	

STEP	ACTION/S TAKEN BY BANK STAFF	RESPONSE TIME	PERSON IN CHARGE	FORMS
	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 an official reply to the Customer.	Within 9 days	Customer Assistance Officer	Letter
	Obtain feedback	Within 15 days	Customer Assistance Officer	Feedback Survey Form

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 the 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 for 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 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 an 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 with 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 recommendations 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's efficiency of the Bank in resolving customer issues and concerns.

The Bank received no complaints in 2021.

INTERFACE WITH BSP

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 in 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 on personnel who committed violations of the policies and procedures pertaining to customer protection reporting. The Bank has also the option to file a criminal case against an erring employee should he/she found violating the law(s) to which 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.

Pursuant to the 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 a 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 person to follow the regulation as well as policies pertaining to customer protection. A sustained excellent service to the customer may merit a 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 the customer protection program.

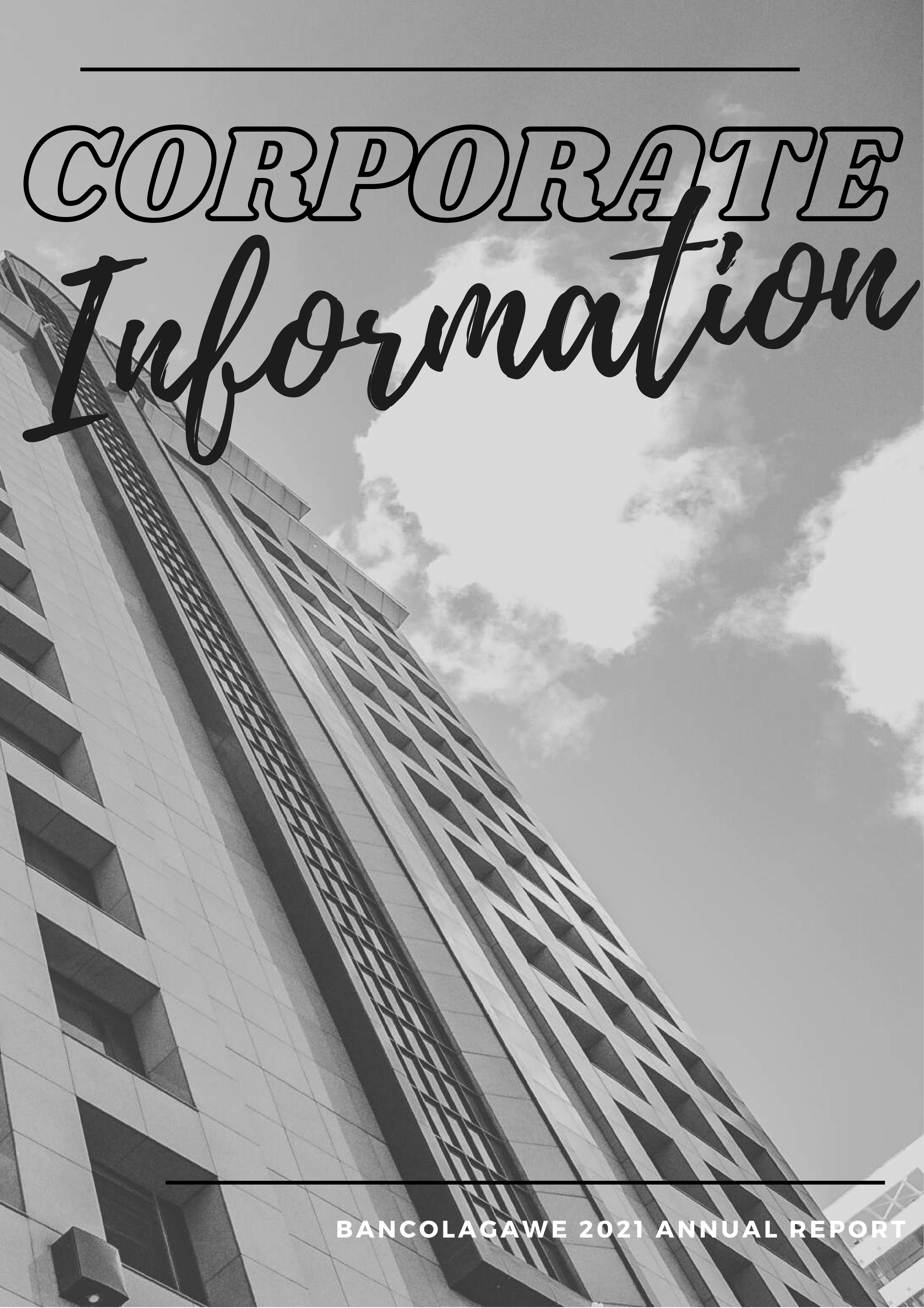
CUSTOMER ASSISTANCE TO PERSONS WITH DISABILITIES & NON-ENGLISH SPEAKERS

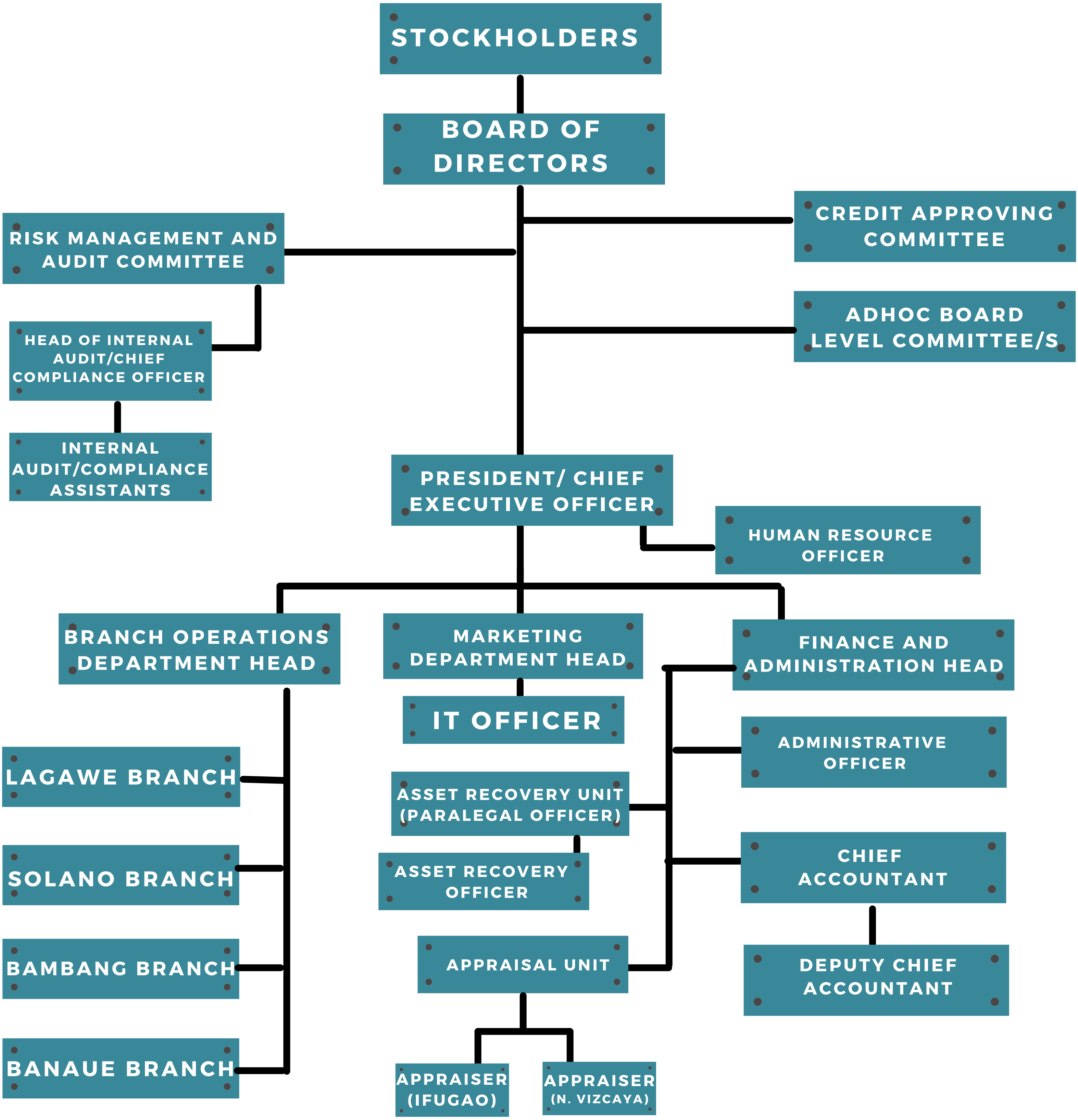
The Bank has developed steps and policies in assisting customers with disabilities and Non-English speakers.

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.

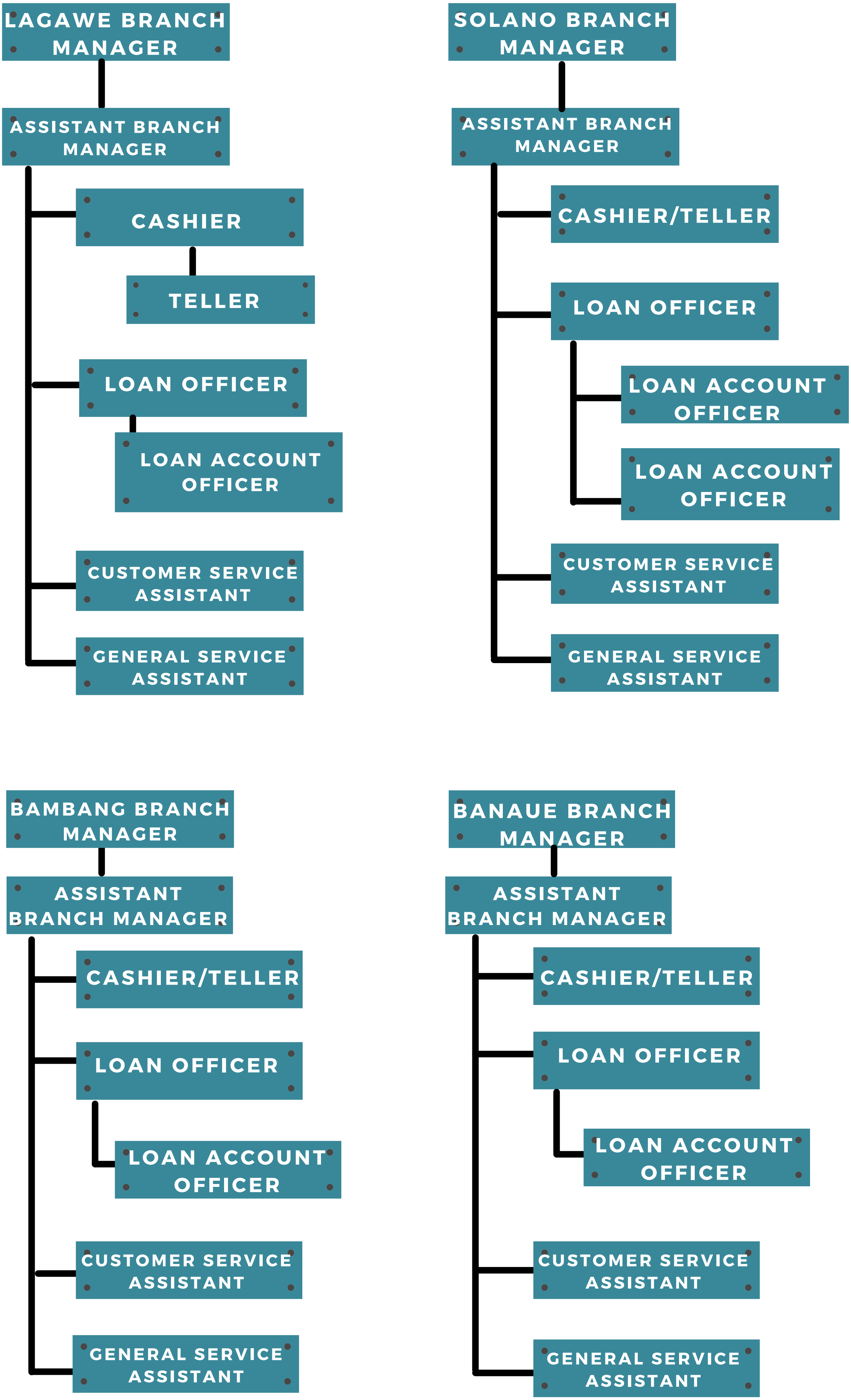
CORPORATE Information





ORGANIZATIONAL STRUCTURE

BRANCH ORGANIZATIONAL STRUCTURE



2021 MANAGEMENT DIRECTORY

PRESIDENT AND CEO	THERENCE G. BATULON	0917-811-5481
AVP/ FINANCE AND ADMIN HEAD	OLIVIA G. GABUL	0917-811-5481
HEAD OF INTERNAL AUDIT/ CHIEF COMPLIANCE OFFICER	DIANA DEAN C. ATIENZA	0917-811-5481
HEAD OF OPERATIONS	OFELIA M. DECORO	0917-811-5212
HEAD OF MARKETING DEPARTMENT	ANABEL A. GONZALES	0917-811-5212
LAGAWE BRANCH MANAGER	SUDIMAY A. AQUINO	0905-540-0560
SOLANO BRANCH MANAGER	ALFREDO P. ARZADON JR.	0975-177-2692
BAMBANG BRANCH MANAGER	HARRIS D. CACLINI	0935-265-8057
BANAUE BRANCH MANAGER	EILEEN B. MAGULING	0935-271-9157

MAJOR STOCKHOLDERS

more than 20% of voting shares

NAME AND NATIONALITY	SHARES SUBSCRIBED				
	TYPE	NUMBER	AMOUNT (PHP)	% OF OWNERSHIP	VOTING STATUS
Phil. Rural Reconstruction Movement (Filipino)	Common Shares	2,354,306	23,543,060.00	47.09%	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 a good credit track record for at least one (1) year and is limited to business, contractor, and agricultural loans. A 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 must be released/availed within 10 banking days from the date of approval. *Note: A redo of a bank check and updating of financial data shall be required if data submitted is more than 60 days from the date of approval. The updated credit proposal with the updated data shall be presented again for approval by the approving authority concerned.*
CREDIT LINE	• Has a maximum term/loan duration of twelve (12) months. • Paid principal amortization can be re-borrowed as long as the existing line has not expired. • Is limited to business, contractor, and agricultural loans. • Borrowers must have the following eligibility criteria: a)Good credit track record for at least one (1) year. b)Business – with profitable operation for the past two (2) years. c)Contractor Loan ‣Borrower must be a licensed contractor or sub-contractor of a licensed contractor; ‣With a good track record of at least two (2) consecutive years as a contractor/subcontractor within the region of operation; and ‣Profitable as a contractor/sub-contractor for the past 2 years.

A **good credit track record** means that there is no unjustified missed payment, and the client voluntarily communicates or responds to notices from the bank in case of delayed payment.

II. LOAN PRODUCTS

PRODUCT	PURPOSE OF LOAN	MODE OF PAYMENT	MAXIMUM LOAN	MAXIMUM TERM OF LOAN
AGRICULTURAL LOAN	• Farm production • Farm improvement/ development	• Lumpsum, pre-deducted interest • Based on Cash Flow of the source of payment	• Depending on the crop, based on the Financial Validation Guide. • 100% of the cost of improvement/ development, to be released in tranche.	• 6 months /depending on the gestation of crop. • 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 (excep start-up business)	• ·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

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
HOME LOAN (FOR FIRST HOME)	House construction, house improvement and expansion	Monthly	80% of the cost	5 years
HOUSING LOAN	This product is for housing purposes not considered as first home of the borrower.	Monthly	80% of the cost	5 years
Asset Acquisition	Residential lot acquisition, House and lot acquisition, and Machinery/ Equipment/ Vehicle acquisition.	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 of property mortgaged, and loan buy-out from a private individual, 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 • Placement Fees	• 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 banks and with hard collateral; 100% of amount needed if deposit is on-us. (interest is pre-deducted and all charges paid).	• Placement Fee – Up to 2 years; may have a grace period of 2 months on principal • Visa Application (B2B loan)- depending on the travel requirement
SALARY LOAN **Non-DepEd DepEd** **Fringe Benefit**	• Education expense • Medical expense • Home appliances • Vehicle acquisition • Home improvement • 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	• depositors with existing Pledge deposit with BancoLagawe. Purposely of availment is for - Working capital, Education expense, Medical expense, Housing, Home appliances, and other consumption needs	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)
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.
  The clean loan shall have a maximum term of twelve (12) months and a maximum loan amount of P150,000, with monthly equal amortization of principal and interest.

- **DOSRI Loan**

  Loan accommodations to Directors, Officers, Stockholders, and their Related Interests (DOSRI) shall be based on the overarching principle that the transactions shall at all times be kept above board and conducted on an arm's length basis (MORB 2017 Sec. 341).

- **Loans extended to Corporate/Organizational: (assigned Loan Product is based on the purpose)**

- **Other Requirements (as necessary).**

  Sanitary permit from the Department of Health (DOH) and/or Environmental Compliance Certificate (ECC) from the Department of Environment and the Natural Resources (DENR) for poultry, piggery projects, hotel/lodging house, furniture shops, wood carving, mining, purchase of generator, among others.

III. DEPOSIT PRODUCTS

PRODUCT	BRIEF DESCRIPTION	MINIMUM ADB TO EARN INTEREST
BASIC DEPOSIT	This account will enable Filipinos, especially the unserved and underserved, to receive and make payments, as well as have a facility for store of value.	PHP 500.00
REGULAR DEPOSIT	Deposit where you can withdraw and deposit anytime at any banking day.	PHP 500.00
PLEDGE DEPOSIT	It is a savings plan that requires a specific purpose which will determine the tenor and amount of deposit.	PHP 500.00
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.	
PREMIUM DEPOSIT	This deposit can also be withdrawn anytime on any Banking day. It is a deposit that requires a minimum amount of Php 50,000.00	PHP 50,000.00
SPECIAL SAVINGS DEPOSIT	These are deposits which are to be withdrawn on a pre-designated date, depending on the term of deposit.	PHP 20,000.00
LONG TERM DEPOSIT	Minimum deposit of Php 100,000.00, with a term of five (5) years and one (1) day.	PHP 100,000.00

IV. BANKING UNITS

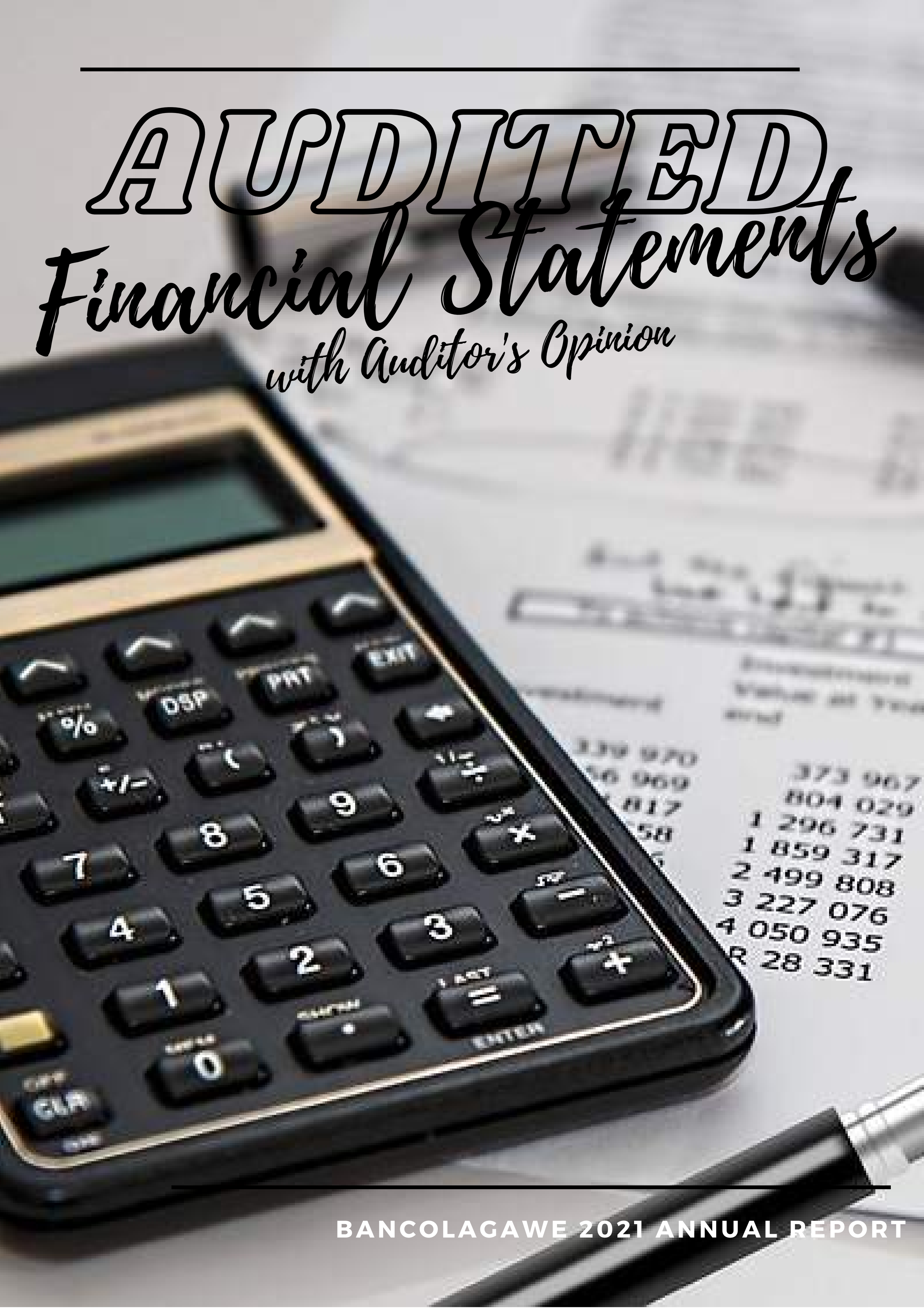
BRANCH	REGION	PROVINCIAL LOCATION	CITY/ MUNICIPALITY	BLDG.# STREET NAME, VILLAGE/ BARANGAY	CONTACT NUMBER
LAGAWE	CAR	Ifugao	Lagawe	#59 JP Rizal Avenue, Poblacion East	09275783880
BANAUE	CAR	Ifugao	Banaue	Ilogue, Tam-an	09352719157
SOLANO	II	Nueva Vizcaya	Solano	#8 Espino St., Barangay Quirino	09059464115 078-3265920
BAMBANG	II	Nueva Vizcaya	Bambang	NVAT Compound, Almaguer North	09175066006

IV. BANK WEBSITE

https://bancolagawe.net/

AUDITED Financial Statements

with Auditor's Opinion



BANCOLAGAWE 2021 ANNUAL REPORT

Alas Oplas & Co., CPAs

Alas Oplas & Co., CPAs
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10/F Philippine AXA Life Centre
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Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT

To the Stockholders and the Board of Directors
LAGAWE HIGHLANDS RURAL BANK, INC.
Poblacion East, Lagawe, Ifugao

Qualified Opinion

We have audited the financial statements of **LAGAWE HIGHLANDS RURAL BANK, INC.** (the "Bank") which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our 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 the Bank as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, the Bank adopted PFRS 9, Financial Instruments on January 1, 2018, 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 contracts.

The Bank adopted Appendix 15 of the MORB in assessing and measuring impairment for its credit exposures. Based on our judgment, the provisioning requirements of Appendix 15 of the MORB is not consistent with the requirements of PFRS 9. Thus, this constitutes departure from PFRS. As of December 31, 2021 and 2020, the Bank's total allowance on credit losses on loans and other receivables amounted to ₱21.84 million and ₱21.95 million, respectively, as disclosed in Note 9. As the Bank has not implemented or assessed the impact of the ECL requirements of PFRS 9, any adjustments to the amounts of surplus, allowance for credit losses and related deferred tax assets as of December 31, 2021 and 2020 have not been determined due to certain limitations.

Moreover, the Bank has unbooked allowance for credit losses on sales contract receivable amounting to ₱5,718,865, based on the provisions of Appendix 15 of the BSP Manual of Regulations for Banks. Should the Bank recognize the said amount, the Bank's profit and equity for the year ended December 31, 2021 will be reduced by ₱4,289,149 and capital adequacy ratio (CAR) as of December 31, 2021 will be reduced to 13.53%.

Also, as discussed in Note 4 to the financial statements, the Bank recognizes retirement benefit obligation using the accrual approach. Under this approach, the Bank accrues monthly retirement expense equivalent to certain percentage of basic compensation of employees. Under PAS 19R, *Employee Benefits*, retirement benefit obligations shall be recognized using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This method also involves making estimates about demographic and financial variables (actuarial assumptions), and discounting the benefit in order to determine the present value of the defined benefit obligation and the related service costs, both of which were not considered in the approach adopted by the Bank. The effect of the difference in the methods in recognizing retirement benefit obligations has not been determined due to certain limitations.

Alas Oplas & Co., CPAs

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

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

Management is responsible for the preparation of the financial statements in accordance with Philippine Financial Reporting Standards, 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

Our objectives are 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 our 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We 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 we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 31 and Revenue Regulations Nos. 15-2010 and 19-2011 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Notes 29 and 30 are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, 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 our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from September 4, 2019 to October 30, 2022
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

RYAN A. SABUG
Partner
CPA License No. 0111183
BIR A.N. 08-006531-001-2020, issued on February 24, 2020; effective until February 23, 2023
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 8852806, issued on January 4, 2022, Makati City

April 7, 2022
Makati City, Philippines

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020
In Philippine Peso

	Notes	2021	2020
ASSETS			
Cash and other cash items	8	**5,471,482**	8,679,180
Due from Bangko Sentral ng Pilipinas	8	**8,674,944**	8,795,985
Due from other banks	8	**92,292,219**	126,284,656
Loans and other receivables – net	9	**304,439,725**	251,043,005
Bank premises, furniture, fixtures and equipment – net	10	**25,740,201**	27,245,098
Investment properties – net	11	**20,747,687**	26,433,515
Deferred tax assets	22	**3,899,954**	4,545,957
Other assets	12	**12,201,592**	9,964,708
TOTAL ASSETS		**473,467,804**	462,992,104
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	13	**345,167,095**	314,536,096
Bills payable	14	**32,057,835**	59,041,211
Accrued interest, taxes and other expenses payable	15	**3,868,601**	4,360,997
Income tax payable		**246,783**	1,296,013
Other liabilities	16	**21,348,398**	17,592,045
Total Liabilities		**402,688,712**	396,826,362
EQUITY			
Common stock	17	**50,000,000**	49,933,530
Surplus reserves	18	**-**	5,000,000
Surplus free	18	**20,779,092**	11,232,212
Total Equity		**70,779,092**	66,165,742
TOTAL LIABILITIES AND EQUITY		**473,467,804**	462,992,104

See Notes to Financial Statements.

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
In Philippine Peso

	Notes	2021	2020
INTEREST INCOME			
Due from other banks	8	**799,809**	820,224
Loans and other receivables	9	**43,058,449**	42,079,026
Other investments	12	**20,770**	12,597
		43,879,028	42,911,847
INTEREST EXPENSE			
Deposit liabilities	13	**(8,223,667)**	(8,052,774)
Bills payable	14	**(1,206,253)**	(4,150,161)
		(9,429,920)	(12,202,935)
NET INTEREST INCOME		**34,449,108**	30,708,912
OTHER INCOME	19	**11,268,617**	22,690,036
TOTAL OPERATING INCOME		**45,717,725**	53,398,948
OPERATING EXPENSES	20	**(35,092,193)**	(36,134,876)
NET OPERATING INCOME BEFORE PROVISION		**10,625,532**	17,264,072
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	21	**(562,102)**	(6,197,715)
PROFIT BEFORE TAX		**10,063,430**	11,066,357
INCOME TAX EXPENSE	22	**(2,816,550)**	(3,933,487)
PROFIT		**7,246,880**	7,132,870
OTHER COMPREHENSIVE INCOME		**-**	-
TOTAL COMPREHENSIVE INCOME		**7,246,880**	7,132,870

See Notes to Financial Statements.

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
In Philippine Peso

	Common Stock (Note 17)	Surplus Reserve (Note 18)	Surplus Free (Note 18)	Total
Balance at December 31, 2019	37,839,780	5,000,000	8,099,342	50,939,122
Issuance of shares	8,093,750	–	–	8,093,750
Stock dividends	4,000,000	–	(4,000,000)	–
Profit	–	–	7,132,870	7,132,870
Balance at December 31, 2020	49,933,530	5,000,000	11,232,212	66,165,742
Issuance of shares	66,470	–	–	66,470
Cash dividends	–	–	(2,700,000)	(2,700,000)
Reversal of appropriation	–	(5,000,000)	5,000,000	–
Profit	–	–	7,246,880	7,246,880
Balance at December 31, 2021	**50,000,000**	**–**	**20,779,092**	**70,779,092**

See Notes to Financial Statements.

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
In Philippine Peso

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**10,063,430**	11,066,357
Adjustments for:			
Interest income	8,12	**(820,579)**	(832,821)
Interest expense – lease liabilities	16	**465,054**	456,959
Gain on sale of non-financial assets	19	**(1,635,516)**	(12,204,460)
Depreciation and amortization	20	**3,318,496**	3,111,625
Provision for credit and impairment losses	21	**562,102**	6,197,715
Retirement benefit expense	20,24	**291,939**	–
Operating income before working capital changes		**12,244,926**	7,795,375
Decrease (increase) in operating assets:			
Loans and other receivables		**(51,469,035)**	25,385,646
Other assets		**(2,729,931)**	634,590
Increase (decrease) in operating liabilities:			
Deposit liabilities		**30,630,999**	62,176,762
Other liabilities		**(36,908)**	1,022,813
Cash generated from (used in) operations		**(11,359,949)**	97,015,186
Interest received		**490,372**	572,922
Income tax paid		**(3,076,799)**	(4,184,154)
Net cash generated from (used in) operating activities		**(13,946,376)**	93,403,954
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture, fixtures and equipment	10	**(472,835)**	(1,708,681)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	**-**	350,930
Proceeds from sale of investment properties	11	**4,171,070**	20,352,116
Net cash generated from investing activities		**3,698,235**	18,994,365
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bills payable	14	**29,589,550**	47,016,418
Payments of bills payable	14	**(56,572,926)**	(103,178,960)
Payment for lease liabilities – principal and interest	16	**(1,114,981)**	(1,051,695)
Proceeds from deposit for stock subscription	16	**3,658,853**	–
Proceeds from issuance of share capital	17	**66,470**	8,093,750
Dividends paid	18	**(2,700,000)**	–
Net cash used in financing activities		**(27,073,034)**	(49,120,487)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(37,321,175)**	63,277,832
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
Cash and other cash items		**8,679,180**	4,022,229
Due from Bangko Sentral ng Pilipinas		**8,795,985**	8,880,241
Due from other banks		**126,284,656**	67,579,519
		143,759,821	80,481,989
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items	8	**5,471,482**	8,679,180
Due from Bangko Sentral ng Pilipinas	8	**8,674,944**	8,795,985
Due from other banks	8	**92,292,219**	126,284,656
		106,438,645	143,759,821

See Notes to Financial Statements.

BREAKDOWN OF CAPITAL COMPONENTS

(from AFS 2021 balances)
As of 31 December 2021

Tier 1	
Paid up capital	50,000,000.00
Surplus reserve	
Surplus free	13,532,210.70
Undivided profits	7,246,880.00
Total Tier 1	70,779,090.70
Deductions from Tier 1 Capaital	
Deferred tax asset	3,899,954.00
Net Tier 1 Capital	**66,879,136.70**
Tier 2	
Perpetual and cumulative preferred stock treasury shares	-
General loan loss provisions	2,095,133.10
Total Tier 2	2,095,133.10
Deductions from Tier 2 Capital	
Perpetual and cumulative preferred stock treasury shares	-
Net Tier 2 Capital	**2,095,133.10**
Net Tier 1 Capital	66,879,136.70
Net Tier 2 Capital	2,095,133.10
Total Qualifying Capital	**68,974,269.80**
Capital requirements for credit risk	414,724,682.97
Capital requirements for market risk	-
Capital requirements for operational risk	57,471,441.46
Total Risk Weighted Assets	**472,196,124.43**
Total CAR Ratio (Total qualifying capital/ Total risk-weighted assets)	**14.61%**
Tier 1 CAR Ratio (Net Tier 1 capital/ Total risk-weighted assets)	**14.16%**