

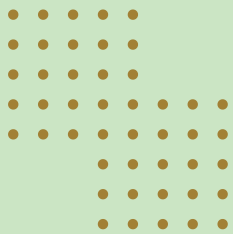


ANNUAL REPORT 2025

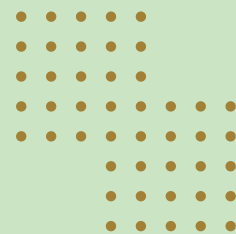
Enriching people's lives



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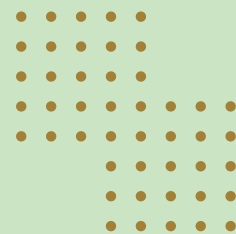
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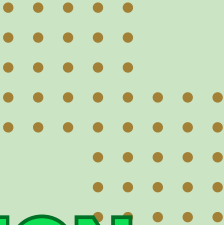


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LAGAWA HIGHLANDS RURAL BANK, INC.

CORPORATE POLICY

OUR VISION

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, pro-active, and empowered workforce.



OUR MISSION

Enriching People's Lives by:

- Providing excellent, fast, accurate, and courteous services to all our stakeholders for the growth of the local economy.
- Equipping to gain competitive advantage in providing greater benefits and services to all our stakeholders.
- 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.



CORE VALUES

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 benefit people and the local economy.



Excellent Service



Commitment



Open-Mindedness



Proactive



Empowerment

INSTITUTIONAL ORIGINS

On December 23, 1999, Lagawe Highlands Rural Bank, Inc., was established in Lagawe, the provincial capital of Ifugao in the Cordillera Administrative Region. Since then, BancoLagawe has been a trusted partner in the economic development of the provinces of Ifugao and Nueva Vizcaya. Founded with a commitment to empower local communities, the Bank has steadily grown from its first office in Lagawe, Ifugao, into a network of branches and service units that support the financial needs of farmers, entrepreneurs, and families across the region.

The Philippine Rural Reconstruction Movement (PRRM) has been implementing the Sustainable Rural District Development Program (SRDDP) in Ifugao and four other provinces since 1989, with funding from NOVIB. Organizing, education, health, and local economic development are the elements of SRDDP. The bank was founded under the local economy development component. The bank was established as a lending institution with a unique identity apart from PRRM, a non-governmental organization dedicated to rural development. PRRM brought together financially skilled and civic-minded people to help build a rural bank in the province.

In December 1999, LHRBI began operations in establishing its main office at the JDT building, Poblacion East, Lagawe, the capital of Ifugao, after the BSP awarded it a license to operate with an initial investment of P3.6 million.

On June 20, 2012, the bank's head office and main branch transferred to the Baywong building along the national highway in the town center of Lagawe, Ifugao. The bank leased two floors and constructed an Ifugao native house featuring a roof designed like the "hagabi." Hagabi is a traditional, large ceremonial bench carved for wealthy Ifugao families as a symbol of wealth, power, and prestige.

In early 2007, to improve its name recall, the bank began using BancoLagawe as the business name. Written in fine letters below the "BancoLagawe" is the bank's Juridical name, the Lagawe Highlands Rural Bank, and on the left side is the bank logo.

In November 2007, the bank's Solano Branch was established in Espino Street, Solano, Nueva Vizcaya, as additional institutional and private investors joined the bank.

The branch debuted its new façade in early 2015, a more spacious office, and on July 18, 2022, the branch transferred from the Danao building in the Espino street to Brgy. Quirino, along the national highway in Solano, Nueva Vizcaya.

To support local farmers and agricultural dealers, the bank established its third branch in October 2009, located in the Nueva Vizcaya Agricultural Trading (NVAT) Compound in Almaguer North, Bambang, Nueva Vizcaya. With the growing agricultural transactions in the Terminal, on February 22, 2016, the Bambang Branch strategically repositioned to a more spacious and conducive for office in the new NVAT administration building, along the national highway in Almaguer North, Bambang, Nueva Vizcaya.

In September of 2015, the bank purchased its first lot in Banaue, Ifugao and constructed its 3-storey building. In February 8, 2018, the Bank marked another significant milestone with the inauguration of its 4th branch in Banaue, strategically located along the National Highway in Ilogue, Tam-An, Banaue, Ifugao. Strengthening its presence in the province, the branch operates from a bank-owned lot and building, reflecting the Bank's continued commitment to growth, stability, and long-term service to the community.

Driven by the bank's core purpose, vision and mission, BancoLagawe applied for additional branches in Ifugao, Nueva Vizcaya, and in Cordon Isabela. In December of 2022, the BSP approved the bank's request.

Following the BSP approval, the bank opened the six(6) branchlite units (BLUs) namely: Quezon (April 17), Tinoc (April 18), Diadi (May 16), Villaverde (June 27), and Lamut (December 7) in 2023 followed by Kiangan (March 6) in 2024.

In November 28, 2023, BancoLagawe crossed provincial borders, opening its first branch in Isabela—the Cordon Branch. This enhance accessibility and bringing banking services closer to more communities.

On May 6, 2025, after acquiring its first property in 2018, BancoLagawe further strengthened its asset base through the acquisition of a lot and a three-storey building along the national highway, Solano, Nueva Vizcaya. BancoLagawe's asset size has demonstrated remarkable growth over the years. It expanded from a base of ₱13 million in 2000 to ₱141 million in 2010, further reaching ₱454 million in 2020, and culminating at an impressive ₱966 million in 2025. This consistent upward trajectory underscores the Bank's commitment to achieving its target of reaching ₱1 billion in assets in 2027.

In November 2014, BancoLagawe's application to increase its authorized capital from 20 million pesos to 50 million pesos was approved by the BSP and SEC. By 2020, the bank's authorized capital stock of 50 million pesos was fully subscribed and paid, reflecting the growing trust of private investors in the bank.

On October 17, 2022, the BSP and SEC approved another increase in the authorized capital, raising it from 50 million pesos to 80 million pesos. This decision was driven by the confidence of existing investors and the increasing interest from potential stakeholders.

In 1999, BancoLagawe started out modestly with just four committed workers. The Bank's employment grew significantly over time as a result of its notable expansion, reaching a total of sixty-three in 2025.



Unveiling the Symbolism of the BancoLagawe Logo:

The BancoLagawe logo is more than just a business identity, but as a stunning visual story that captures the organization's goals, principles, and long-lasting relationships with the communities it serves. Conceptualized and created by Enrique "En" Gallardo, Jr., a former participant in the Rural Reconstruction Movement in the Philippines (PRRM)—the emblem is a well designed symbol filled with several levels of institutional and cultural meaning.

Rooted in the Land:

A visual allusion to the famous Ifugao Rice Terraces, a UNESCO World Heritage Site, lies at the heart of the design. World Heritage Site and a timeless symbol of the area's agricultural legacy, tenacity, and inventiveness. By means of this BancoLagawe reaffirms its fundamental dedication to the agricultural industry and its function in encouraging rural development that is sustainable.

A Bountiful Harvest:

The emblem, which resembles a fig of palay (unhusked rice), symbolizes a bountiful harvest. The building, with three climbing steps and a rounded topmost knoll, resembles a palay head, with the grains located at the top. The metaphor represents BancoLagawe's values of abundance, growth, and shared prosperity, which are important to its interaction with clients and the community.

Symbolism of Collaboration and Stewardship:

The BancoLagawe logo further embodies the three interlocking semi-circles serve as a symbol for the institution's developmental philosophy. These characteristics represent the bank's fundamental philosophy in a tripartite framework for sustainable local economic growth, grounded in the collaborative engagement of the private sector and government, institutions and civil society. This tri-sectoral relationship is crucial for building resilient and inclusive rural economies.



Protecting What We Nurture:

Beyond institutional collaboration, the semi-circles evoke a sense of community—representing the important roles of borrowers, depositors, and investors. Together, these stakeholders provide the foundation for the bank's financial ecosystem. In the center of the design the golden circle represents BancoLagawe's financial health and vitality. The element is symbolically cradled in the manner of a traditional oban (a baby sling carrier), symbolizing our common responsibility to maintain and nurture the institution's well-being. The imagery refers to the community shares responsibility and invests in the bank's long-term prosperity.

The BancoLagawe logo represents the bank's guiding ideals of inclusivity, growth, collaborative involvement, and a firm commitment to working in tandem with local communities work together to create a sustainable future.

Beyond Banking:

BancoLagawe presents itself as a dedicated partner in the economic empowerment of people and communities, rather than just a supplier of financial services. Driven by its objective of advancing equitable rural development, the bank aims to establish enduring connections with its customers, rooted in shared prosperity, trust, and accessibility.

Tailored Financial Solutions:

BancoLagawe takes a client-centric approach to providing financial services because it understands the socioeconomic diversity of the communities it serves. The bank provides a wide range of accessible, reasonably priced, and personalized financial products to meet the diverse needs of its customers. BancoLagawe provides proactive solutions that are tailored to local circumstances and personal aspirations, whether it is helping a farmer secure funding for the upcoming planting season, helping an entrepreneur expand their firm, or helping families accumulate funds for future objectives.

Excellence in Customer Care:

A strong service culture lies at the core of BancoLagawe's activities. The organization places a high priority on providing outstanding customer service, making sure that each client encounter is characterized by friendliness, both responsiveness and attentiveness. Employees are taught to calmly respond to questions, offer clear and thorough advice, and work with customers to find financial solutions that support their individual objectives. The core of creating a helpful and powerful banking experience is this service attitude.



Community-Centered Banking:

BancoLagawe has established a reputation as a reliable financial partner, especially among indigenous populations, and is deeply ingrained in the cultural and socioeconomic fabric of the highland villages it serves. The bank sees financial inclusion as a basic facilitator of equity and justice rather than just a byproduct of accessibility. BancoLagawe enables under represented groups to actively participate in the local economy by fostering financial literacy and creating inclusive financial solutions.

Banking with a Social Mission:

BancoLagawe is a social company that strives for a mission-driven banking strategy that combines community impact with financial viability. The bank deliberately reinvests its profits into projects that improve local communities rather than focusing solely on profit maximization. These consist of financial education campaigns, community development initiatives, and assistance for micro and small businesses. BancoLagawe acts as a catalyst for long-term, inclusive development throughout the region by using this socially conscious strategy.

BUSINESS MODEL



The creation of BancoLagawe is a story of communal spirit. The bank is proudly owned by individuals, families, and organizations that are devoted to empowering others and have a strong affection for the area.

The founding of BancoLagawe was significantly influenced by the Philippine Rural Reconstruction Movement (PRRM). The bank's P3.5 million first capitalization in 1999 was made possible by PRRM, a fervent supporter of alternative rural financing through people's banks. This catalytic investment laid the groundwork for a collaborative and community-oriented ownership model that still outlines the bank's objectives and system of governance.

In 2007, the ownership circle expanded to include the Paragon Credit Cooperative (PCC) in Quezon City, Aldersgate College in Solano, as well as prominent rural development-oriented individuals and families from Manila, Ifugao, and Nueva Vizcaya. BancoLagawe's commitment to attracting stakeholders who share its objective of promoting equitable growth in the region is reflected in its expansion.

BancoLagawe remains open to welcoming new investors; the basic prerequisite is a common emphasis on rural development. This guarantees that the bank's ownership reflects its fundamental principles and enables it to continue providing services to the greater good.

Although BancoLagawe now uses traditional branches in key places, the bank is aware that this strategy has limitations when it comes to reaching underserved and isolated communities. BancoLagawe is actively exploring the possibilities offered by present and upcoming digital technologies in order to close this gap.

BancoLagawe is aware of the potential risks associated with unconventional banking arrangements. The bank will take a deliberate and balanced approach to reducing these risks, making sure that its digital innovations enhance its current advantages while protecting its clients' financial security.

One important measure of the bank's capacity to grow and support its communities is its financial success. BancoLagawe prioritizes a more profound measure of success: its beneficial impact on the lives of its clients and the community at large, even though measures like capital sufficiency, profitability, and asset quality are important.

For BancoLagawe, sustainability is more than just financial security; it's about improving people's lives, particularly those in the highlands. This dedication results in an unwavering emphasis on social responsibility and making sure the bank is competently led by a knowledgeable group committed to providing outstanding service and attaining favorable results for everyone stakeholders.

The ownership structure of the bank and its future course are profoundly linked. BancoLagawe is laying the groundwork for a future characterized by inclusion, accessibility, and shared prosperity by cultivating alliances with investors who share its principles and welcoming innovation with cautious optimism. By doing this, it portrays itself as a long-lasting pillar of fair growth throughout generations as well as a reliable financial institution.



LAGAWE HIGHLANDS RURAL BANK, INC.

FINANCIAL HIGHLIGHTS

PARENT BANK (SOLO)

Minimum Required Data	Current Year	Previous Year	Previous Year
	31 December, 2025	31 December, 2024	31 December, 2023
Profitability			
Total Net Interest Income	77,104,586	61,268,394	42,743,237
Total Non-Interest Income	15,654,313	18,716,418	27,915,616
Total Non-Interest Expenses	60,387,684	57,082,559	47,491,230
Pre-provision profit	32,381,215	22,902,253	23,167,623
Allowance for Credit Losses	11,724,551	1,347,553	2,183,130
Net Income	15,545,822	16,217,615	15,799,775
Selected Balance Sheet Data			
Liquid Assets	153,557,195	178,058,442	111,287,391
Gross Loans	704,516,129	614,495,634	464,027,696
Total Assets	965,526,521	868,162,861	677,365,089
Deposit	640,697,838	580,163,235	386,986,378
Total Equity	114,039,058	109,234,066	97,643,771
Selected Ratios			
Return on Equity	13.93	15.68	17.39
Return on Assets	1.68	2.07	2.54
CET 1 Capital ratio (For UBs/KBs)	—	—	—
Tier 1 Capital ratio (For UBs/KBs)	13.95	14.55	15.45
Capital adequacy Ratio	14.68	15.24	16.06
Per Common shares data (For Ubs/KBs and Publicly Listed Banks)			
Net income per share:			
Basic	2.22	2.34	2.49
Diluted	2.22	2.34	2.49
Book Value	16.29	15.78	15.41
Others			
Cash Dividends declared	11,500,000.00	10,500,000.00	3,600,000.00
Headcount			
Officers	11	11	10
Staff	52	52	40



LAGAWE HIGHLANDS RURAL BANK, INC.

FINANCIAL CONDITION AND RESULTS OF OPERATION

PRESIDENT'S REPORT

To our esteemed fellow stockholders, members of the Board of Directors, guests, good morning. On behalf of BancoLagawe, I would like to extend my sincere appreciation for your

presence in today's Annual Stockholders' Meeting. Your continued support, trust, and active participation in the affairs of the bank are deeply valued and greatly contribute to our shared success. Your presence today is a strong affirmation of your commitment to the Bank's growth and governance, and we are truly grateful for your time and engagement as we reflect on our performance and discuss the path forward.

BancoLagawe has successfully concluded its 26th year in the banking industry, marking another significant chapter in its continuing growth and evolution. Following the milestone celebration of its 25th anniversary in 2024, the year 2025 represents not only a period of transition but the starting point of a new journey toward its next major milestone, the Bank's 50th year.

It is both an honor and a privilege to be part of, and to witness, BancoLagawe's journey through its achievements and challenges over the past 26 years. In an ever-changing landscape, we have learned that success depends on setting the right "beat" of action, knowing when to slow down and speed up with the demands of the moment. Guided by this enduring perspective, the Bank remains committed to leveraging its collective strength, ensuring that every action is responsive to the changing environment and firmly anchored in its core purpose of "Enriching people's lives."

STRATEGIC GAINS

1. Purchase of Lot with three-storey building

Nearly a decade after acquiring its first property, the Banaue Branch, BancoLagawe has successfully expanded its asset base with the acquisition of a lot and a three-storey building in Solano, Nueva Vizcaya.

This development aligns with the Bank's strategic vision of establishing presence across the three key provinces of Ifugao, Nueva Vizcaya and Isabela, thereby reinforcing its institutional stability and strengthening its corporate image within its area of operation.



PRESIDENT'S REPORT

The acquisition in Nueva Vizcaya marks a significant milestone for the Bank, representing the realization of a long-term objective. Moving forward, BancoLagawe intends to fully utilize the property within the next two years. In support of this objective, the building will undergo the necessary renovations and enhancements to ensure compliance with operational standards and to provide a conducive and secure banking environment.

2. Relocation of the Tinoc Branchlite Office

The Tinoc office has been strategically relocated to the central area of the Municipality of Tinoc, Ifugao, enhancing its accessibility and visibility within the community. Given Tinoc's trajectory as a growing municipality, this move is expected to generate long-term value and support the Bank's continued expansion in the area.

In line with its forward-looking strategy, BancoLagawe envisions the eventual conversion of the Tinoc Branch Lite into a full-fledged branch. Building on this positive momentum, the Bank also aims that this branch will expand its areas of operation through the establishment of a Branch Lite in Mankayan, Benguet.

3. Lowest Past Due Loan Ratio and Non-Performing Loan Ratio

Managing loans is essential for maintaining the bank's relevance in the industry. A high Provision for Defaulted Loans (PDR) and Non-Performing Loan Ratio (NPLR) are critical indicators of the bank's financial health. High levels of these metrics may lead to increased provisions for potential losses, which could ultimately result in a capital adequacy ratio falling below the acceptable minimum of 10% under the risk-based framework.

In the year 2025, the bank recorded a PDR of 3.77%, the lowest rate in its 26-year history. This figure represents an improvement of 1.71% compared to 2024. Likewise, the non-performing loan ratio—measured as loans that are 90 days or more past due—also reached a record low of 3.31%, down from a peak of 18.25% in 2018.

4. Steady Financial Growth

4.1. Assets

As of year-end 2025, the Bank's total assets reached ₱966 million, exceeding the target of ₱908 million and translating to a 106% accomplishment. This represents a year-on-year increase of ₱77 million, or 9%, from ₱889 million in 2024.

Aligned with the Bank's 5-year strategic plan (2023-2027), this performance reflects a strong 126% achievement against the set benchmark, underscoring the effective execution of its growth strategies.

PRESIDENT'S REPORT

4.2 Loans Portfolio

The primary engine driving our revenue generation accounts for 70% of the total assets. At the conclusion of the fiscal year, the bank reported a consolidated loan portfolio of ₱730 million, reflecting a 15% or ₱95 million increase from 2024-year end. In relation to the 2025 target, the bank achieved an accomplishment rate of 97%.

The total loans granted for the year amounted to ₱615 million, resulting in an accomplishment rate of 112%

4.3 Deposit Portfolio

At the conclusion of the fiscal year, the bank reported a consolidated deposit totaling ₱640.76 million, reflecting a notable net increase of ₱61 million, or 6%, in comparison to the end of 2024. This achievement underscores the bank's robust performance, as the deposit portfolio has maintained an average annual growth rate of ₱65 million over the past five years, starting in 2020. Furthermore, the demand deposit product launched in November 2024 has begun to contribute positively, concluding the year 2025 with a portfolio of ₱8.70 million.

4.4 Stockholders Equity

The Total Stockholders Equity of the bank has shown consistent growth, more than doubling since 2020 to reach ₱114 million by the end of 2025. This equity is comprised of ₱70 million in paid-in capital and ₱44.21 million in retained earnings, reflecting the bank's strong capital structure and financial stability.

The bank continued its positive momentum in revenue generation. In 2025, the bank's total operating income reached ₱120 million, marking a 20% increase from the previous year. This growth was primarily driven by our strong loan performance and improved quality of our loan portfolio. Interest income increased by 20%, totaling nearly ₱105 million, which now represents 87% of total operating income. This is an improvement from 81% in 2024, indicating that our revenue is increasingly reliant on our core operations, specifically loan services, rather than extraordinary income.

Additionally, we experienced a ₱10 million increase in operating expenses, which rose from ₱78 million in 2024 to ₱88 million in 2025. Importantly, the increase in operating expenses was 7% lower than the rise in operating income.

Notwithstanding the required provisioning of ₱11.7 million, the Bank delivered a consolidated net income after tax of ₱15.62 million, demonstrating sustained financial resilience and operational strength.

PRESIDENT'S REPORT

Further, operational efficiency reached a new level, with a cost-to-income ratio of 63.33% at year-end, improving from 70.94% in 2024 (the lower the ratio, the better).

After the opening of our new branches and branchlites in 2023, we are humbled to report that every BancoLagawe branch has achieved a positive net income. In 2023, our newly opened branches faced initial challenges in generating income, as they focused on building market presence and client trust amid strong competition from established financial institutions within their respective areas. Notably, only the Tinoc branchlite recorded a positive income during this initial year of operations.

In 2024, these branches and branch lite units demonstrated significant improvement in performance, with only the Kiangnan Branch Lite and Cordon Branch remaining in a negative position.

By 2025, all branches of BancoLagawe not only achieved positive income but also exceeded initial financial projections, reflecting a substantial turnaround in operational performance. Consequently, the Bank recorded a net income after tax of ₱15.62 million for the year. This strong performance across all branches affirms the soundness of the Bank's strategic expansion initiatives, enabling sustained growth and the delivery of enhanced value to its stakeholders.

The financial performance of BancoLagawe demonstrates the success of its strategic initiatives aimed at strengthening its position in the banking industry. Since the implementation of the employee merit and recognition program in 2020, we have seen a notable improvement in overall operational results.

As a key highlight in 2025, performance-based incentives were granted to employees, including the equivalent of one (1) month's salary upon achieving 110% of the target net income after tax. Additionally, a further one (1) month incentive was awarded for successfully reducing the Past Due Ratio (PDR) to 3.77%, significantly outperforming the target PDR of 6%. This PDR incentive is structured at the office or branch level to promote accountability and ensure the quality of individual loan portfolios is consistently maintained. This PDR incentive is structured per office or branch to individually safeguard the quality of respective loan portfolios.

PRESIDENT'S REPORT

While the introduction of incentives was initially perceived by other banks as an added cost, we at BancoLagawe, has proven to be a key driver of enhanced productivity and performance. Moreover, this incentive framework is designed to be self-sustaining and does not diminish the Bank's targeted income. Incentives are structured as an incremental component over and above the target income and are not charged against or deducted from the approved income target; thus, management is tasked with generating additional income to cover such payouts. For instance, if the target net income is ₱15 million and the corresponding incentive is ₱1 million, the Bank must achieve ₱16 million or higher in income, ensuring that incentive payments are funded through performance above target rather than from the original income goal.

CHALLENGES

1. Low liquidity ratio

Our minimum liquidity ratio (MLR) stands at 36.64%. While this level remains comfortably above the regulatory minimum of 20% set by the Bangko Sentral ng Pilipinas, it is notably lower than the industry average of 56.76%.

The current MLR is assessed as being within safe limits; however, insufficient reserves may hinder the timely servicing of required loans and unusual withdrawals, potentially resulting in lost revenue opportunities. Analysis indicates that increasing the MLR to at least 40% is advisable. Historical data show that for three consecutive years, liquidity constraints were observed in the second quarter, which suggests the need for improved preparation for 2026.

2. Readiness of Personnel

Recent human resource challenges have underscored the importance of remaining aligned with evolving labor laws and regulatory requirements, enhancing recruitment processes, conducting continuous training needs assessments, and implementing human resource programs that promote productivity, employee engagement, and career development.

The 2026 succession plan has identified a significant shortage of qualified personnel across junior and middle management levels. This gap poses a considerable challenge to the Bank's expansion initiatives, particularly in the establishment of additional branches, and highlights the critical need for strengthened talent development and more strategic hiring practices to support sustained growth.

In response, it is imperative to reinforce the Bank's human resource capabilities through targeted talent development programs, proactive succession planning, and a more strategic approach to recruitment. Ensuring personnel readiness remains a key priority—not only to address current workforce gaps but also to build a resilient and capable organization that can effectively support and drive the Bank's long-term objectives.

PRESIDENT'S REPORT

3. Increase the deposit portfolio

A deposit is recognized as a cost-effective source of bank funds for operations. Although the deposit portfolio has shown annual growth, the bank's loan-to-deposit ratio stands at 114.06%, exceeding the industry ratio of 67.95% by 46%. A lower ratio typically indicates additional liquidity, allowing the bank to issue new loans financed by stable deposits. The 114.06% ratio indicates that a portion of the loans granted is financed through external sources, such as borrowing. Increased borrowing may lead to a higher cost of funds, as reflected in the funding cost ratio of 3.71%, which is 1.15% above the industry average of 2.56%. An ideal loan-to-deposit ratio is generally considered to be at least 90%.

4. Digitalization

While it is true that going digital will increase not only production but also market, we need to factor in other considerations like the cost of going digital, the market behavior, and connectivity. Our main concern is the cost, with the understanding that BancoLagawe is still a small but growing bank in the industry. A need to conduct a deeper analysis because it may require higher supervision from regulatory bodies, fresh capital infusion, and overall preparedness of manpower, especially in the information technology unit.



LAGAW HIGHLANDS RURAL BANK, INC.

RISK MANAGEMENT FRAMEWORK

CULTURE AND PHILOSOPHY

As a financial institution operating under the oversight of the Bangko Sentral ng Pilipinas, BancoLagawe is mandated to establish and uphold effective risk management frameworks tailored to the company's specific characteristics in terms of size, nature, and complexity.

BancoLagawe's operations, spanning from lending activities to deposit services, encompass a diverse array of risk profiles. Each branch, department, and division within BancoLagawe has unique risk management needs.

Given the evolving regulatory and corporate governance landscape, BancoLagawe necessitates a dynamic risk management policy capable of adapting to the changing business environment and regulatory requirements.

The entirety of BancoLagawe's operations is underpinned by a robust risk management system that permeates the organization's policies and procedures, ensuring continuous adherence. This framework is subject to ongoing monitoring as part of the internal audit process, with senior management providing active oversight and endorsement.

Any prospective business endeavors undergo thorough evaluation within BancoLagawe's risk management framework, involving key stakeholders in the decision-making process.

The institution benefits from a comprehensive risk management protocol, which includes:

1. Mitigating adverse financial and operational outcomes.
2. Enhancing relationships with business partners.
3. Implementing more streamlined and efficient processes.
4. Ensuring compliance with regulatory mandates from entities such as the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Bureau of Internal Revenue (BIR), local government units (LGU), among others.
5. Enhancing individual accountability and promoting transparency in decision-making.
6. Expeditiously seizing business opportunities while maintaining a comprehensive understanding of associated risks.

BancoLagawe adheres to a risk management strategy delineated in its policy manual, designed with the necessary adaptability to meet the evolving demands of the banking industry. The Board of Directors, Risk Management, and Bank Management collectively endorse the belief that a robust risk management framework is underpinned by an effective strategy, rigorous risk assessment protocols, and meticulous risk reporting practices.

RISK APPETITE STATEMENT

At BancoLagawe, we thrive on the strength of our community-centric financial services, committed to nurturing prosperity in every corner of rural life. Our operational risk appetite serves as a guiding beacon, seamlessly blending prudence with progress.

Preserving Trust

- Implement rigorous internal controls and regular audits to ensure the integrity of financial transactions.
- Foster a culture of transparency, openly communicating with our community about our financial practices and risk management measures.

Innovation with Caution

- Assess the potential risks associated with new financial products or technologies before their implementation.
- Conduct comprehensive risk assessments on new initiatives, balancing the pursuit of innovation with a careful evaluation of potential operational disruptions.

Empowering our People

- Provide ongoing training programs to enhance the skills of our staff, enabling them to better identify and manage operational risks.
- Foster a culture of responsibility and accountability, where employees are encouraged to report potential risks promptly.

Community Resilience

- Develop contingency plans and disaster recovery strategies to ensure uninterrupted service to our community in the face of unforeseen events.
- Collaborate with local authorities and community leaders to understand specific risks and tailor our operations to mitigate them effectively.

Continuous Adaptation

- Management team shall be responsible for monitoring industry trends and regulatory changes, ensuring that our operational strategies remain aligned with evolving landscapes.
- Conduct regular scenario planning exercises to anticipate and prepare for potential challenges, enabling us to adapt swiftly.

Robust Governance

- Strengthen governance frameworks through regular reviews of policies and procedures to ensure they align with regulatory requirements.
- Risk management committee shall oversee the implementation and effectiveness of risk management practices.

At BancoLagawe, we view operational risks not as impediments, but as opportunities to fortify our commitment to the communities we serve. Together, we navigate the financial landscape with prudence, purpose, and an unwavering dedication to rural prosperity.

RISK MITIGATION STRATEGY

At BancoLagawe, we understand that trust is paramount. Thus, we take a proactive approach to managing risk, ensuring the safety of your deposits and the Bank's long-term sustainability. We believe in spreading risk across different sectors, locations, and market segments. This diversification strategy prevents excessive concentration in any single area, mitigating potential losses and safeguarding the financial well-being of both the bank and its customers. Our risk management strategies are not merely theoretical concepts. They are outlined in a comprehensive Fund Management and Contingency Plan. This plan serves as a roadmap, guiding our decisions and actions to proactively address potential challenges and ensure the continued success of the bank.

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.

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 Loan	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
Fringe Benefit Loans	maximum exposure of 5% of TLP

RISK MITIGATION STRATEGY

4. As to Security:

Secured Loans	No Limit
Unsecured Loans	maximum exposure of 35% of TLP

B. DEPOSIT EXPOSURES

Demand Deposit	No Limit
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. SINGLE DEPOSITOR'S LIMIT

Board approved limit is set at a maximum deposit of P50 Million per depositor.

D. MINIMUM LIQUIDITY

Liquidity is maintained above the 20% requirement level.

E. INTEREST RATE MARGIN

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

F. CAPITAL ADEQUACY RATIO

The Bank maintains its risk-based capital adequacy ratio (RBCAR) at comfortable levels of 14% to 16%.

RISK CHALLENGES AND SIGNIFICANT RISK AREAS IN 2025

The year 2025 marked a significant milestone for BancoLagawe as all branches and branch lite units achieved positive financial performance and exceeded initial projections. The Bank recorded a Net Income After Tax of ₱15.62 million, reflecting the success of its strategic expansion initiatives, operational improvements, and performance-driven culture. Despite these achievements, management remains vigilant in identifying and addressing key risks that may affect the Bank's sustainability, profitability, and regulatory compliance.

In accordance with sound risk management principles and regulatory expectations, the Bank continuously evaluates significant risk areas and develops appropriate mitigation measures to ensure long-term stability and growth.

Significant Risk Areas and Challenges

1. Risk Challenge: Liquidity Risk

The Bank's Minimum Liquidity Ratio (MLR) stood at 36.64% as of December 31, 2025. While this remains well above the Bangko Sentral ng Pilipinas (BSP) minimum requirement of 20%, it is lower than the industry average of 56.76%.

Although the Bank's liquidity position remains adequate, a lower liquidity buffer may affect its ability to immediately meet unexpected loan demands and unusual withdrawal activities, potentially resulting in missed business opportunities. Historical trends also show recurring liquidity constraints during the second quarter over the past three years.

Management assesses this risk as moderate. To address this concern, the Bank aims to increase its MLR to at least 40%, strengthen liquidity forecasting and cash flow monitoring, improve deposit generation efforts, and establish contingency funding arrangements for seasonal liquidity requirements. Regular liquidity stress testing will likewise be conducted to evaluate the Bank's ability to withstand adverse conditions and ensure continued financial stability.

2. Risk Challenge: Human Capital and Personnel Readiness Risk

The Bank recognizes that competent and capable personnel are essential to achieving its strategic objectives. Recent human resource challenges have highlighted the need for continuous compliance with labor regulations, enhanced recruitment practices, regular training assessments, and employee development initiatives.

RISK CHALLENGES AND SIGNIFICANT RISK AREAS IN 2025

Management assesses this risk as high. To mitigate this challenge, the Bank will continue to strengthen succession planning, leadership development, competency-based training programs, recruitment strategies, and employee retention initiatives. Regular workforce planning will also be undertaken to ensure adequate staffing and organizational readiness for future growth.

3. Risk Challenge: Funding and Deposit Portfolio Risk

Deposits remain the Bank's most cost-effective and sustainable source of funding. Although the deposit portfolio continues to grow, the Bank's Loan-to-Deposit Ratio (LDR) reached 114.06%, significantly higher than the industry average of 67.95%. This indicates that a portion of the Bank's loan portfolio is funded through borrowings and other external sources, resulting in higher funding costs and increased exposure to refinancing risks.

Management assesses this risk as moderate to high. The Bank will continue to strengthen deposit mobilization efforts across all branches, develop deposit products responsive to market needs, enhance customer acquisition and retention programs, and reduce dependence on external borrowings by expanding its deposit base. These initiatives are intended to improve liquidity and move the LDR closer to the ideal level of 90%.

4. Risk Challenge: Digitalization and Technology Risk

The banking industry continues to undergo rapid digital transformation, creating opportunities for improved operational efficiency, customer service, and market expansion. However, digitalization also introduces additional costs, regulatory requirements, cybersecurity concerns, and technology-related risks.

As a growing rural bank, BancoLagawe recognizes the importance of carefully evaluating digital initiatives to ensure that investments are aligned with business needs, available resources, and organizational readiness. Particular attention must be given to information technology capabilities, manpower development, and compliance with regulatory requirements.

Management assesses this risk as moderate. The Bank will continue to conduct thorough evaluations of digital projects, strengthen information technology governance and cybersecurity controls, invest in personnel development, and ensure compliance with BSP regulations governing information security and digital banking operations. A phased approach to digital transformation will be adopted to ensure sustainability and operational readiness.

RISK CHALLENGES AND SIGNIFICANT RISK AREAS IN 2025

5. Risk Challenge: Achieving and Maintaining Low Loan Delinquency

For many years, achieving a single-digit Past Due Ratio (PDR) and Non-Performing Loan Ratio (NPLR) remained a key challenge and strategic objective for BancoLagawe. Maintaining low delinquency levels is essential to preserving asset quality, safeguarding profitability, and ensuring the Bank's long-term financial stability. Moving forward, sustaining this achievement will require continued vigilance, disciplined credit underwriting, and close monitoring of emerging risks that may affect borrowers' repayment capacity.

Management assesses this risk as moderate. While the Bank has successfully achieved and maintained a single-digit Past Due Ratio (PDR) and Non-Performing Loan Ratio (NPLR), the risk of loan delinquency remains inherent in lending operations and may be influenced by adverse economic conditions, borrower repayment capacity, market volatility, and unforeseen external events. Continuous monitoring, prudent credit underwriting, regular portfolio reviews, and effective collection strategies are therefore necessary to sustain asset quality and prevent deterioration in the loan portfolio. Management believes that existing controls and risk management measures are adequate to keep this risk within the Bank's acceptable risk tolerance level.

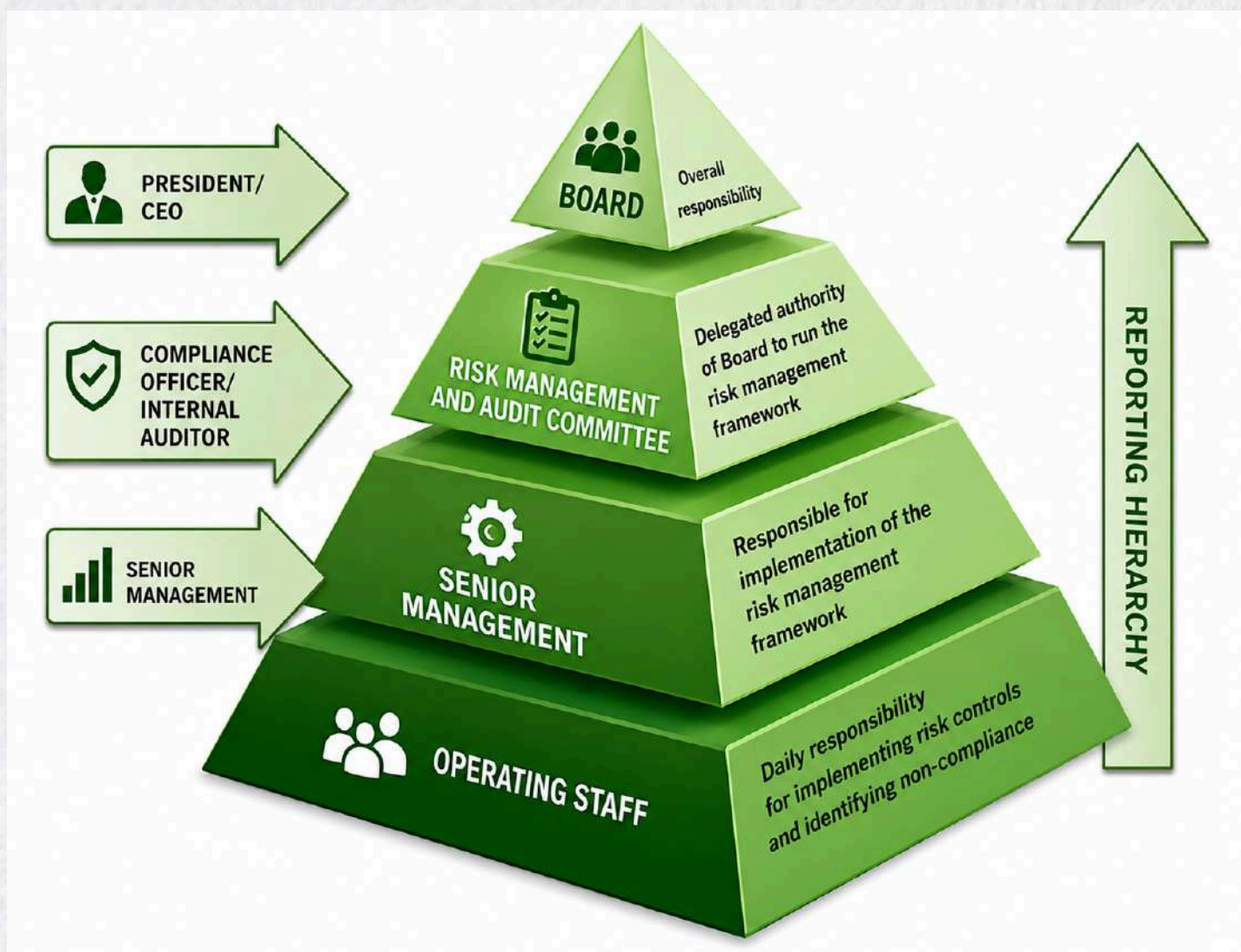
BancoLagawe's strong financial performance in 2025 demonstrates the effectiveness of its strategic initiatives, branch expansion program, and performance-based management framework. Nevertheless, the Bank recognizes that sustainable growth requires continuous monitoring and management of significant risks.

Management remains committed to maintaining a strong liquidity position, developing a competent workforce, strengthening its deposit portfolio, and pursuing digital transformation in a prudent and controlled manner. Through sound risk management practices and continued regulatory compliance, the Bank seeks to safeguard its financial stability, support future growth opportunities, and create lasting value for its stakeholders.

Overall, management considers the Bank's risk profile to be manageable and within acceptable levels, supported by adequate controls, prudent governance, and continuous improvement initiatives.

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, Compliance Officer/Internal Auditor, Management and Staff.**

BOARD OF DIRECTORS

The Board has over all 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.

RISK MANAGEMENT AND AUDIT COMMITTEE (RMAC)

The RMAC is 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 of the 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.

COMPLIANCE OFFICER/ INTERNAL AUDITOR

The Chief Compliance Officer/ Internal Auditor is recognised 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 CCO/IA and will direct management to provide resources and access commensurate to the proper performance of the risk function:

- Assist the RMAC 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.

- 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;
- Provide a report on risk management issues to the RMAC and Board at each meeting;
- Maintain the Risk Register;
- Ensure there is adequate coverage of risk management across the entire organization.

SENIOR MANAGEMENT

In order to ensure the appropriate level of commitment to risk management practices, executive officers at the corporate and branch levels are to be enjoined to promote and adhere to this Policy and to the risk management framework generally:

- Ensuring risks are managed and considered on a daily basis;
- Conducting annual business reviews to address inherent and residual risks;
- Determining appropriate controls to risks identified relating to their business function; and
- Embedding the culture of risk management within their department.

OPERATING STAFF

Employees from various business units have been nominated and appointed responsible for risk management within their business areas. 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:

- Ensure assigned risks are managed in accordance with designated timeframes;
- Implement risk controls as required;
- Assist the CCO/IA in conducting annual risks reviews and projects as specified;
- Embed the culture of risk management in their business unit.
- 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 a business activity; and
- Ensure controls in place over a risk are operating properly.

REVIEW AND REPORTING

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.

a. Annual Review

This Operational Risk Management Policy generally will be reviewed on an annual basis.

The CCO/IA is responsible for the coordination of the annual risk review. Senior Management will provide complementary services and oversight to the risk review and will report to the CCO/IA on its findings.

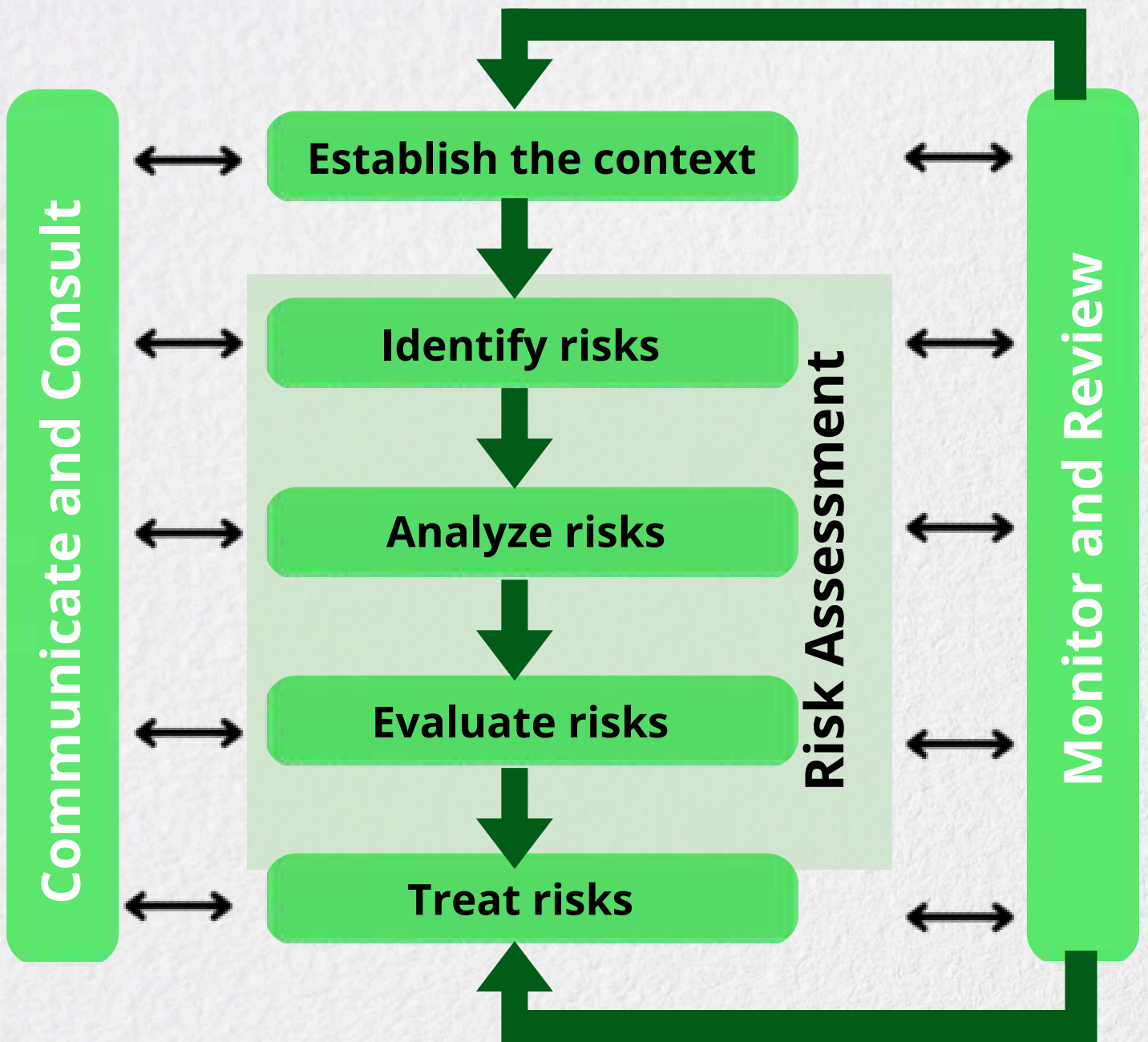
The risk review must be completed by no later than March 31 each year and a report submitted to the RMAC at the next available meeting. The RMAC will be responsible for reviewing and overseeing the implementation of any actions that arise from the review. The report will then be tabled at the next Board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

b. Risk Management Reports

Notwithstanding oversight of the risk management function has been delegated to the RMAC, the Board considers it crucial that it be kept abreast of developments in risk management within BancoLagawe. Monthly RMAC Reports will be tabled at each Board meeting for review and comment. Any actions that arise from a Board meeting will be automatically delegated to the RMAC or Senior Management, as may be appropriate, for implementation and reporting. The monthly RMAC Report should contain the following at a minimum:

1. Compliance Report
2. Audit Report
3. Risks Report

RISK MANAGEMENT PROCESS



RISK MANAGEMENT PROCESS

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:

- The internal context– culture, business structure, reporting lines, resources, capabilities (people and systems);
- The external context– business, political, financial, and regulatory environments;
- The legal and compliance framework and the scrutiny of the regulators;
- The requirements of its key alliance partners, including Rural Bankers Association of the Philippines (RBAP) members, key suppliers, key customers, and other business partners;
- The actions of its representatives, including employees and the third-party outsourced service providers);
- The industry framework, to align bank objectives with industry standards; and Corporate goals and objectives for the bank.

BancoLagawe develops on an annual basis a Business Strategic Plan that outlines its goals, objectives and visions for the upcoming year and immediate future years. The Bank determines what risks it faces in following this Business Plan and what its approach will be in handling them, whether to manage, avoid or otherwise deal with them.

2

IDENTIFY THE RISKS

Corporate Officers and Branch Managers, with assistance from the Compliance Officer, are 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 impact 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.

RISK MANAGEMENT PROCESS

3

ANALYZE THE RISKS

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 and the consequences of each risk's potential impact on the organization.

4

EVALUATE THE RISKS

The evaluation process involves the application of risk controls to the risks identified. Once the control (s) have been determined for the risk, they should be given a rating. The risk rating should be used to determine future action to be taken for that risk or a group of risks with similar properties.

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.

RISK MANAGEMENT PROCESS

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

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

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

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

(c) Share/ Transfer the risk – involving another party to spread the risk may be beneficial to allow the Bank to continue participating in an opportunity presented by that risk. Insurance may be taken to transfer 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

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

MONITOR THE RISKS

Risk must be monitored to ensure the risk management process is effective. Risk monitoring is the responsibility of all bank employees 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 the Bank's risk management policies.



AML GOVERNANCE AND STRUCTURE

BancoLagawe's Anti-Money Laundering Program serves as a comprehensive operating guideline for the 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.

Governance Structure

Board of Directors:

- Ultimate Responsibility
- Oversees AML compliance, approves policy updates, and ensures alignment with AMLA/TFPSA regulations.

Senior Management:

- President/CEO: Chairs PEPs Committee, approves high-risk relationships (e.g., PEPs).

Chief Compliance Officer(CCO):

- Develops/updates AML policies and manuals.
- Liaises with AMLC/BSP/SEC.
- Submits Covered Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) to AMLC.
- Maintains STR logs and oversees ongoing monitoring.

Head of Branch Operations (HBO):

- Reviews preliminary STRs before escalation.

Management Committee (MANCOM):

- Evaluates STRs for consistency with AMLC red flags.
- Approves/rejects STR filings.

Branch Managers and Branch Anti-Money Laundering Officers(jointly)

- Conduct customer due diligence (CDD),risk classification, and initial interviews.
- Detect/document suspicious transactions.
- Update customer records based on risk/materiality.
- Safeguard AML records
- Monitor high-risk accounts (e.g., PEPs).
- Support STR documentation.
- Tag customer risk levels (Low/High) in systems.

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 INRELATION 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 the true and full identity of all bank customers is established and to understand the nature of the 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 the occurrence thereof, unless supervising authority prescribes a longer period or upon verified/confirmed knowledge of the bank on the basis for such suspicious transaction.



LAGAW HIGHLANDS RURAL BANK, INC.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

BancoLagawe is guided by a seasoned and highly capable Board of Directors comprised of nine (9) members— seven (7) regular directors and two (2) independent directors—each bringing extensive professional expertise, including deep experience in banking, finance, and rural development. Directors are elected annually during the stockholders’ meeting and serve for a term of one year, allowing for continued responsiveness to institutional priorities and stakeholder expectations.

All board members are required to meet stringent qualifications as outlined in the bank’s Corporate Governance Manual and must comply with the Bangko Sentral ng Pilipinas’ (BSP) “fit and proper” rule, as well as other relevant regulatory requirements. Independent directors may serve for a cumulative maximum of nine (9) years, in accordance with BSP regulations. However, the bank may retain their institutional knowledge and leadership capabilities by re-electing them as regular directors following the end of their independent directorship.

Strategic Role and Institutional Stewardship

The Board of Directors plays a pivotal role in shaping BancoLagawe’s strategic direction, institutional policies, and long-term sustainability. Their mandate includes:

- Establishing and upholding the bank’s vision, mission, and strategic objectives;
- Approving policies and operational guidelines that align with regulatory expectations and development goals;
- Monitoring management performance through robust oversight mechanisms;
- Ensuring sustainable profitability and operational resilience in alignment with stakeholder interests.

By ensuring sound governance and prudent risk oversight, the Board ensures the bank’s continued competitiveness and social impact in the rural banking sector.

Corporate Governance Principles

BancoLagawe’s corporate governance framework is anchored in globally recognized best practices and guided by four core principles:

- **Accountability:** The Board and executive management are accountable to shareholders, regulators, clients, and the broader community. They are entrusted with stewardship over the bank’s assets and long-term integrity.

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

- **Transparency:** The bank adheres to the highest standards of disclosure and transparency in its financial reporting and operations, building stakeholder trust through open communication.
- **Fairness:** BancoLagawe upholds equitable treatment for all stakeholders, including shareholders, depositors, borrowers, employees, and partner institutions. Decision-making is based on merit, objectivity, and ethical practice.
- **Efficiency:** Operational efficiency is pursued through continuous improvement, resource optimization, and innovation in service delivery—ensuring the bank remains adaptive and customer-responsive.

Driving Sustainable Growth Through Leadership

Leveraging the diverse expertise and strategic acumen of its Board of Directors, BancoLagawe is well-positioned to advance its mission of inclusive rural development. The Board's collective leadership ensures that the bank remains forward-looking, resilient, and responsive to the evolving financial needs of its customers and the community. Through sound governance and principled leadership, the bank strengthens its foundation for long-term, sustainable growth.

SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

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

- College education or equivalent academic degree;
- Practical understanding of the business of the corporation;
- Membership in good standing in relevant industry, business or professional organizations;
- Previous business experience;
- Filipino citizen with at least one (1) share of the bank's capital stock;
- 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 considers 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.

BOARD'S OVERALL RESPONSIBILITY

1) 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:

- 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.
- 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.
- Periodically evaluate and monitor the implementation of such policies and strategies, including the business plans, operating budgets and management overall performance.
- Ensure the corporation's faithful compliance with all applicable laws, regulations and best business practices.
- Establish and maintain an investor relations program that will keep the stockholders informed of important developments in the corporation.
- 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.
- 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.
- 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.

BOARD'S OVERALL RESPONSIBILITY

- Formulate and implement policies and procedures that would ensure the integrity and transparency of related party transactions between and among corporations and its joint ventures, subsidiaries, associates, affiliates, major stockholders, officers and directors, including their spouses, children and dependent siblings and parents, and of interlocking directors relationships be members of the board.
- Constitute an Audit committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities.
- 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.
- 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.
- Appoint a Compliance Officer who shall have the rank of at least vice president. In the absence of such appointment, the corporate secretary, shall act as compliance officer.
- 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.

MAJOR ROLE AND CONTRIBUTION OF THE CHAIRMAN OF THE BOARD

The Chairman of the Board holds a central leadership role within BancoLagawe's corporate governance framework. As the presiding officer of the Board of Directors, the Chairman is entrusted with steering the Board's collective efforts in guiding the strategic direction, oversight, and long-term sustainability of the institution.

The Chairman is responsible for ensuring that the Board operates with efficiency, cohesion, and purpose. This includes facilitating balanced and inclusive discussions, ensuring all directors are equipped with the necessary information and resources to make sound, evidence-based decisions, and leading the formulation of the bank's strategic objectives. Through this role, the Chairman helps translate BancoLagawe's mission into actionable long-term strategies that respond to both market opportunities and developmental goals.

A core component of the Chairman's leadership is the cultivation of trust and mutual respect among Board members. By fostering a collegial and collaborative environment, the Chairman encourages open communication, constructive deliberation, and consensus-driven decision-making—strengthening the Board's effectiveness as a strategic body.

The Chairman also plays a key role in upholding the principle of accountability, ensuring the Board remains answerable to shareholders, depositors, regulators, and the wider community. This includes championing transparency in governance practices and reinforcing responsible decision-making processes that reflect the interests of all stakeholders.

In addition, the Chairman serves as a guardian of ethical conduct and good governance. By modeling integrity, impartiality, and professionalism, the Chairman sets a high standard for ethical leadership. This includes promoting adherence to established governance policies, regulatory compliance, and internal controls that ensure fairness, transparency, and prudent management across all levels of the institution.

Through visionary leadership, principled governance, and a steadfast commitment to institutional values, the Chairman of the Board plays a pivotal role in positioning BancoLagawe for continued growth, resilience, and inclusive impact.

BOARD COMPOSITION

NAME OF DIRECTOR	TYPE OF DIRECTORSHIP	PRINCIPAL STOCKHOLDER REPRESENTED	NUMBER OF YEARS SERVED AS DIRECTOR	NUMBER OF SHARES HELD	PERCENTAGE OF SHARES
ABUNDIO EDICIO G. DELA TORRE	NON-EXECUTIVE	Direct shares held PRRM	7 years	30,944 2,892,838	0.44% 41.33%
WILLIE A. DAMASCO	NON-EXECUTIVE	Direct shares held Luzviminda Damasco ALDERSGATE	18 years	698,528 53,739 204,109	9.98% 0.77% 2.92%
THERENCE G. BATULON	EXECUTIVE	Direct shares held Janette Batulon Pearl Andrea Batulon	6 years	326,346 103,941 14,773	4.66% 1.48% 0.21%
GLENN ROY V. PARASO	NON-EXECUTIVE	Direct shares held Gemini Paraso	17 years	228,124 3,956	3.26% 0.06%
JOHN G. TAYABAN	NON-EXECUTIVE	Direct shares held Ma. Theresa Tayaban	4 years	79,337 29,337	1.13% 0.42%
DEXTER B. DUGYON	NON-EXECUTIVE	Direct shares held Eva Marie Dugyon	5 years	159,356 77,013	2.28% 1.11%
GLORIA G. BULAYO	INDEPENDENT	Direct shares held Jaysie Bulayo	5 years	100,000 38,189	1.43% 0.55%
FIDEL A. DINCOG	INDEPENDENT	Direct shares held	3 years	43,549	0.62%





BancoLagawe

ABUNDIO EDICIO G. DELA TORRE

Director/Chairman

➡ Filipino-82 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, President



Education For Life, Chairperson



GMPI, Global Mindanaw,
Chairperson

PAST POSITION



TESDA, Director General
1998 - 2001



Philippine Coconut
Authority, Board Member,
2014- 2018



BancoLagawe

DR. WILLIE A DAMASCO

Director/Vice Chairman

- ➔ Filipino- 79 years old
- ➔ Vice - Chairman of the Board since 2007

EDUCATIONAL BACKGROUND



Doctor of Medicine,
University of the East



Residency Training, Nueva Vizcaya
Doctor's Hospital



Master in Management in Hospital
Administration,
Philippine Christian University

PAST POSITION



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

Medical Board 1978-1982



Nueva Vizcaya Doctors' Hospital,
Director 1979 - 1982



Vizcaya Kidney Center,
Director 1998-2007



IPH,
Director 1995- 1998

OTHER PRESENT POSITION



Salubris MedicalCenter,
Chairman of the Board



Aldersgate College, Inc.,
Chairman of the Board



BancoLagawe

THERENCE G. BATULON

DIRECTOR/PRESIDENT/CEO

- ➔ Filipino-47 years old
- ➔ President and CEO since 2020

EDUCATIONAL BACKGROUND



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

PAST POSITIONS IN THE BANK

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

OTHER PRESENT POSITION



NVAT-Director
since 2020



CCVRB - Treasurer
since 2019



KOINONIA Church-
Vice Chairman since 2018

PAST POSITION



PCCI- Treasurer 2017



PCCI- Vice Pres 2018



Ifugao and Global Enterprises-
Savings and Loans 1999



BancoLagawe

DR. GLENN ROY V. PARASO

Director/Treasurer

- ➔ Filipino-63 years old
- ➔ Director since 2008

EDUCATIONAL BACKGROUND



Premed, UE Recto



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



BancoLagawe

DEXTER B. DUGYON

Director

- ➔ Filipino-48 years old
- ➔ Director since 2021

EDUCATIONAL BACKGROUND



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

OTHER PRESENT POSITION



Rasco Farm- Proprietor



BancoLagawe

JOHN G.TAYABAN

Director

- ➔ Filipino-61 years old
- ➔ Director since 2022

EDUCATIONAL BACKGROUND



Bachelor of Science in Psychology
Saint Louis University



Master of Science in Psychology
Saint Louis University



Doctor of Psychology
Cagayan State University

OTHER PRESENT POSITION



Saint Mary's University-
Vice President for Administration
2019

PAST POSITION



Saint Mary's University-
Head- Publishing
2007- 2019



BancoLagawe

GLORIA C. BULAYO

Independent Director

- ➔ Filipino-48 years old
- ➔ independent Director since 2021

EDUCATIONAL BACKGROUND



Bachelor of Science in
Accountancy,
Saint Mary's University

PAST POSITION



Moral Nanz and Assoc
Junior Auditor 2000 - 2001



Tam- an Cooperative
Posting Clerk, Admin and
Finance Officer, Internal Audit



Banaue Mountain Resort
Posting Clerk, Bookkeeper



Joshkhurt Computers and
Enterprises
Manager

OTHER PRESENT POSITION



Bulayo Drugstore,
Proprietor



Joshkhurt Pharmacy,
Proprietor





BancoLagawe

FIDEL A. DINCOG

Independent Director

- ➔ Filipino-71 years old
- ➔ independent Director since 2023

EDUCATIONAL BACKGROUND



Bachelor of Science in Agriculture,
Baguio State University



Master in Rural Development,
Nueva Vizcaya State Institute of
Technology



Master in Entrepreneurship,
Asian Institute of Management

PAST POSITION



Central Cordillera Agriculture
Program
ZoneChief 1989- 1991



Central Cordillera Agriculture
Program
Area TeamLeader 1992 2000



Farm Systems Development
Coordinator - Operations
Supervisor, 1979- 1984

POSITIONS IN BANCOLAGAWE



Senior VP/COO - 2012 to 2014
Vice President /COO - 2009 to
2012



Assistant Vice President
/Operations Manager - 2008



Branch Manager - 2006 to 2008



Assistant Manager - 2000 to 2005

BOARD LEVEL COMMITTEES, MEMBERSHIP & FUNCTION

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

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

The RMAC consists of three (3) members, the Chairman of whom is an Independent Director. The Committee reports to the Board, following the committee meetings. The report may take the form of an oral report by the chair or by any other member of the Committee designated to make the report. RMAC members are composed of Chairman Fidel A. Dincog and members, Director Gloria C. Bulayo, and Director John G. Tayaban.

The Board maintained only the Risk Management and Audit Committee (RMAC) as a regular Board-level Committee, having been classified as a simple bank. 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 convene only when necessary as directed by the Board.

BOARD LEVEL COMMITTEES, MEMBERSHIP & FUNCTION

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

- 1.Ensure the 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- Independent Director Gloria C. Bulayo and Director Abundio Edicio G. Dela Torre.

The **Credit Committee** is delegated with the authority to:

1. Approve loan applications amounting to above P2 million to P5 million, subject to compliance with regulatory guidelines and the bank's credit policies;
2. Approve ROPA disposals through Sales Contract Receivable (SCR) regardless of amount, subject to confirmation by the Board of Directors.

The Credit Committee consists of three (3) members of the Board of Directors with expertise in credit analysis, credit risk assessment, and relevant bank operation procedures, namely: Chairman Willie A. Damasco, and members, Director Dexter B. Dugyon and President/CEO Terence G. Batulon.

The Board shall appoint each member of the Committee during a regular board meeting and shall serve as such until a successor is duly appointed. A member of the Committee may be removed by a majority vote of the Board. The duration of service for Committee members shall span one year. Any vacant positions that arise are to be promptly occupied by the appointed successor, ensuring the fulfillment of the remainder of the term of office.

The Chair of the Committee shall be elected by a majority vote of the members of the Committee.

DIRECTOR'S ATTENDANCE TO BOARD AND COMMITTEE MEETINGS

REPUBLIC OF THE PHILIPPINES)
Province of Ifugao
Municipality of Lagawe

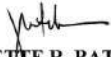
SECRETARY'S CERTIFICATE

I, **JANETTE R. BATULON**, Filipino, of legal age, married, with residence address at Baguinge, Kiangnan, Ifugao, Philippines, after having been duly sworn in accordance with law, hereby depose and say that:

- I am the duly elected Corporate Secretary of Lagawe Highlands Rural Bank, Inc. (herein referred to as the "Bank") a bank existing and organized under and by virtue of the laws of the Philippines, with principal address at 59 JP Rizal Ave., Poblacion East, Lagawe, Ifugao;
- Based on the records of the Bank, and in compliance with BSP Circular 1129 on Board of Directors' meetings, the attendance of the re-elected members of the Board of Directors for the period March 2025 to March 2026 is summarized as follows:

Name of Director	Total No. of Meetings	Number of Physical Attendance	Physical Attendance % to Total Meetings (B/A)
	A	B	C
Abundio Edicio G. Dela Torre	13	10	77%
Willie A. Damasco	13	12	92%
Therence G. Batulon	13	13	100%
Glenn Roy V. Paraso	13	11	84%
John G. Tayaban	13	7	54%
Marlon P. Palomo	8	6	75%
Dexter B. Dugyon	13	11	84%
Gloria G. Bulayo	13	13	100%
Fidel A. Dincog	13	12	92%

IN WITNESS WHEREOF, I have hereunto set my hand this 6th day of April 2026, at Lagawe, Ifugao, Philippines.


JANETTE R. BATULON
Signature over Printed Name
Affiant

SUBSCRIBED AND SWORN to before me on the date and place above-mentioned, affiant exhibiting her Tax Identification Number 914-603-948.

Doc. No. 176 ;
Page No. 35 ;
Book No. X ;
Series of 2026


ATT. ANDREWS C. BAGLIG
NOTARY PUBLIC
ROLL NO. 32023
NOTARIAL COMMISSION NO. 23-24 WITH DEC. 31
PTR NO. NV 3086026/DEC. 28, 2025
IBP NO. INV 528402/DEC. 28, 2025
SOLANO, NUBELAVIZCAYA

Name of Committee Members	Risk Management & Audit Committee			Corporate Governance Committee		
	Total Number of Meetings	Number Of Attendance	%	Total Number of Meetings	Number Of Attendance	%
Glenn Roy V. Paraso				4	4	100%
Gloria G. Bulayo				4	4	100%
Abundio Edicio G. dela Torre				2	1	50%
Marlon P. Palomo	2	2	100%	2	2	100%
Fidel A. Dincog	3	3	100%			
John G. Tayaban	3	3	100%			

LIST OF SENIOR MANAGEMENT

THERENCE G. BATULON



- ➔ Filipino-47 years old
- ➔ President and 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.

President/ CEO



OLIVIA G. GABUL

- ➔ Filipino-49 years old
- ➔ AVP/HBO

EDUCATIONAL BACKGROUND



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

Other Information

Joined the Bank in 2012

- Chief Accountant(February 2012- September 2012)
- AVP/Chief Compliance Officer(October 2012- 2018)
- AVP/Head, Admin and Finance (2018- 2023)
- Concurrent Corporate Secretary (2018-2020)
- Concurrent Human Resource Officer(2018- 2020)
- AVP/Head of Branch Operation (Ifugao and Cordon 2023-present)

**ASSISTANT VICE PRESIDENT & HEAD OF BRANCH
OPERATIONS (IFUGAO & CORDON)**



OFELIA M. DECORO

- ➔ Filipino-47 years old
- ➔ AVP/HBO

EDUCATIONAL BACKGROUND



Bachelor of Science in Commerce -
Major in Banking & Finance
Saint Mary's University

Other Information

Worked in the bank as:

- Micro Finance Officer 2002 – 2006
- Loans and Marketing Deputy- 2006
- Cashier 2007
- Loan Officer 2008 – 2010
- Branch Manager 2011 – 2014
- Asset Recovery Officer – 2014
- RMARS Head 2015 – 2017
- Credit Review Officer 2018 – 2019
- Branch Manager 2019 - 2020
- Head of Branch Operations- 2021- present

**ASSISTANT VICE PRESIDENT & HEAD OF BRANCH
OPERATIONS (NUEVA VIZCAYA)**



DIANA DEAN C. ATIENZA

- ➔ Filipino-45 years old
- ➔ HIACCO since 2018

EDUCATIONAL BACKGROUND



Bachelor of Science in Accountancy,
Saint 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.

**HEAD INTERNAL AUDITOR/ CHIEF COMPLIANCE
OFFICER**

ROLAND B. REYES

➔ Filipino -38 years old

EDUCATIONAL BACKGROUND



Bachelor of Science in Accountancy,
Saint Mary's University



Juris Doctor- Post Grad
(units only)

Saint Mary's University

Other Information

Worked in bank as:

- Branch Accountant- 2008–2009
- Concurrent Chief Accountant- 2010- 2012
- Concurrent Chief Accountant and Risk Management Officer- 2012-2013
- Chief Accountant – 2023
- Admin, Finance & Technical Services Department Head- 2023 to present

**ADMIN, FINANCE, AND TECHNICAL SERVICES
DEPARTMENT HEAD**



JANETTE R. BATULON

➔ Filipino-48 years old

EDUCATIONAL BACKGROUND



Bachelor of Science in Accountancy,
Saint Mary's University

Other Information

- Joined the Bank in 2024 work as Executive Assistant to the President/CEO and Corporate Secretary
- Proprietress-TGB and General Merchandise
- Insular life - Financial Advisor

Past Position

- Ifugao Government Employee Multipurpose Cooperative in different positions as Collector, Bookkeeper, Assistant Manager

**EXECUTIVE ASSISTANT TO THE PRESIDENT/
CORPORATE SECRETARY**

PERFORMANCE ASSESSMENT PROGRAM

BancoLagawe's Board of Directors is committed to upholding high standards of corporate governance through continuous self-evaluation and performance enhancement. To this end, the bank has institutionalized a Board Performance Assessment Program designed to evaluate the collective effectiveness of the Board and the individual contributions of its members. This program is aligned with established governance best practices and the bank's overarching strategic objectives.

The assessment is conducted on an annual basis, enabling the Board to identify strengths, address areas for improvement, and ensure that its governance practices remain responsive to the bank's evolving needs.

Assessment Process Overview

The Board Performance Assessment Program consists of three structured phases:

1. Self-Assessment by Individual Directors

Each director begins the process by completing a comprehensive self-assessment questionnaire. This tool is designed to facilitate personal reflection on their performance, participation, and compliance with their roles and responsibilities as members of the Board and of any board-level committees to which they belong.

2. Review and Evaluation by the Corporate Governance Committee

The Corporate Governance Committee reviews the completed self-assessments and convenes to evaluate both individual and collective Board performance. As part of this process, the Committee may also solicit 360-degree feedback from fellow board members, senior management, and select stakeholders to obtain a more holistic perspective on effectiveness, decision-making, and leadership dynamics.

3. Consolidation, Approval, and Recommendations

Upon completing its review, the Corporate Governance Committee consolidates the findings and submits a report to the full Board. The Board then formally reviews and approves the assessment results, using the findings as a basis for recommending performance improvement measures. These may include targeted training, committee restructuring, or enhancements to board processes and engagement.

Through this structured approach, BancoLagawe ensures that its governance practices remain transparent, accountable, and performance-driven, reinforcing the Board's ability to provide effective strategic oversight and deliver long-term value to stakeholders.

PERFORMANCE ASSESSMENT PROGRAM

The Performance Standards

The performance standards that are used to assess the performance of the board are based on the following criteria:

- **Fulfillment of the Board's Key Responsibilities:** The board's key responsibilities include setting the bank's strategic direction, overseeing the bank's management, and ensuring the bank's compliance with applicable laws and regulations.
- **Quality of Board-Management Relationship:** The board-management relationship is critical to the success of the bank. The board needs to have a strong working relationship with management in order to effectively oversee the bank's operations.
- **Effectiveness of Board Processes and Meetings:** The board's processes and meetings should be effective in order to ensure that the board is able to fulfill its responsibilities.
- **Board Structure:** The board's structure should be appropriate for the size and complexity of the bank.

Performance Assessment Program for Senior Management and Staff

To ensure alignment with its strategic objectives and sustain a culture of high performance and accountability, BancoLagawe has instituted a structured Annual Performance Evaluation Program for its senior officers and staff. This program forms an integral part of the bank's broader performance management framework and reinforces its commitment to professional excellence, organizational effectiveness, and continuous improvement.

Evaluation Process

The performance evaluation process is guided by clearly defined performance standards tailored to the roles and responsibilities of each position. The assessment follows a multi-step process:

1. Individual Self-Assessment

Each employee, including senior management, initiates the evaluation by completing a self-assessment, which provides an opportunity to reflect on accomplishments, challenges, and alignment with job responsibilities and institutional goals.

2. Supervisor Review and Evaluation

The immediate supervisor of each employee conducts a comprehensive performance review, which includes analysis of the self-assessment and an independent evaluation of the employee's achievements, competencies, and areas for development.

3. Approval and Oversight

The compiled assessment results are submitted to the President/Chief Executive Officer (CEO) for final review and approval. For staff in independent or control functions (e.g., Risk Management, Compliance, Audit), the evaluation results are escalated to the Risk Management and Audit Committee, and subsequently to the Board of Directors, in accordance with governance protocols and to ensure objective oversight.

PERFORMANCE ASSESSMENT PROGRAM

Purpose and Organizational Impact

The performance assessment program is a vital mechanism for fostering organizational discipline, accountability, and leadership development. Specifically, the program aims to:

- Ensure that all staff and senior officers are effectively fulfilling their responsibilities;
- Identify individual strengths and areas for improvement;
- Promote a performance-oriented culture rooted in accountability and self-reflection;
- Support professional growth and training initiatives;
- Align individual efforts with the bank's mission, values, and strategic goals.

ORIENTATION AND EDUCATION PROGRAM

BancoLagawe is committed to ensuring that its directors and senior management are adequately qualified to fulfill their respective roles. To this end, the bank has implemented an orientation and education program that includes the following:

- Regular updates on regulations, new laws, and current market developments: During board meetings, directors receive regular updates on regulations, new laws, and current market developments. This helps directors to have a good understanding of both the business and regulatory environments.
- New directors receive appropriate orientation training that covers the bank's history, operations, and corporate governance practices. This training helps new directors to understand their roles and responsibilities.
- All directors are required to attend a seminar on corporate governance that follows the BSP-prescribed syllabus. This seminar helps directors to understand their fiduciary duties and the importance of good corporate governance.
- Senior management and staff undergo different training programs on relevant subjects. These training programs are designed to help employees to develop their skills and knowledge and to stay up-to-date with the latest developments in the banking industry.

Personnel Development Program

The bank's orientation and education program identifies the type of training or seminar to be accorded to each employee. It also includes the training provider(s), the projected date of training, and the estimated costs for each training.

The total cost of the personnel development program becomes part of the annual "Training and Seminar Expense" budget of the bank. BancoLagawe's orientation and education program is an important part of the bank's commitment to good corporate governance. The program helps to ensure that the bank's directors, senior officers and staff are adequately qualified to fulfill their respective roles and that they have the knowledge and skills necessary to help the bank to achieve its strategic objectives.

RETIREMENT AND SUCCESSION POLICY

Retirement Policy for Senior Management and Staff

Normal Retirement Benefit

A bank regular 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 lump sum retirement pay based on the following computation:

NO. OF YEARS IN SERVICE	COMPUTATION
5 to 9	Latest salary x 0.5 x no. of years in service
10 to 14	Latest salary x 1.0 x no. of years in service
15 to 19	Latest salary x 1.5 x no. of years in service
20 years and above	Latest salary x 2.0 x no. of years in service

Latest pay shall include the employee's basic salary, cost of living allowance, and tenure pay. Bank retirement fund shall be managed by a reputable insurance company who shall assist the bank in registering the program with the BIR.

Early Retirement Benefit

In recognition of an employee's commitment as determined by his/her length of service with the bank, the bank designed an Early Retirement Benefit for employees 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 lumpsum retirement pay as in the Normal Retirement Benefit.

Separation Benefit

In recognition of employee tenure with the bank, a 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

RETIREMENT AND SUCCESSION POLICY

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 nominated by the principal stockholders of the Bank.

Succession Policy for Senior Management

The Bank recognizes that effective succession planning is essential to ensure leadership continuity, maintain operational stability, and support the achievement of its strategic objectives. Accordingly, the Human Resources Officer (HRO) shall establish, maintain, and periodically review a comprehensive succession plan covering all Senior Management positions, excluding the President /Chief Executive Officer.

The succession planning process shall identify Senior Management officers who may be subject to retirement, resignation, termination, or other forms of attrition within the year, as well as positions that may become vacant due to organizational growth, restructuring, expansion, or evolving business requirements.

In carrying out the succession planning process, the HRO shall undertake the following responsibilities:

1. Assessment of Incumbent Officers

Conduct periodic assessments of incumbent officers, taking into consideration factors such as qualifications, experience, performance, age, health condition, leadership effectiveness, and succession readiness. Based on the assessment, recommendations may include the extension of service, where permitted under applicable policies, or the appointment of a qualified successor.

2. Identification and Development of Successors

Identify critical positions and determine the competencies, skills, and leadership capabilities required for successful performance. Potential successors shall be assessed and provided with appropriate development opportunities, including training, coaching, mentoring, job rotation, and other learning interventions to strengthen their readiness for future leadership roles.

3. External Talent Acquisition

Where internal succession candidates are not readily available or specialized expertise is required, the HRO may recommend recruiting qualified external candidates to ensure the Bank maintains an adequate pool of competent and capable leaders.

4. Transition and Continuity Planning

Ensure that recruitment and selection activities for anticipated vacancies are initiated sufficiently in advance to facilitate an orderly transition, minimize operational disruptions, and preserve continuity of leadership and institutional knowledge.

RETIREMENT AND SUCCESSION POLICY

5. High-Potential Employee Development

Identify high-potential employees with demonstrated leadership capability and growth potential and implement structured development programs designed to prepare them for future management and leadership responsibilities.

6. Leadership Development and Knowledge Transfer

Members of Senior Management shall actively participate in succession planning by mentoring and developing potential successors within their respective areas of responsibility. They shall facilitate the transfer of institutional knowledge, provide exposure to critical functions and strategic decision-making processes, and support the development of future leaders.

7. Interim Succession Arrangements

In the event of an unexpected vacancy, incapacity, or prolonged absence of a Senior Management officer, the next qualified officer within the organizational structure, where practicable, shall assume the position in an interim capacity until a permanent appointment is approved in accordance with this Policy.

7. Approval and Governance Process

All succession planning recommendations, including appointments, extensions of service, interim designations, and external recruitment for Senior Management positions, shall be submitted by the HRO to the President/Chief Executive Officer for review and endorsement.

The President/Chief Executive Officer shall elevate such recommendations to the Corporate Governance Committee for evaluation and recommendation to the Board of Directors. Final approval by the Board of Directors shall be required prior to implementation.

Through this Policy, the Bank seeks to ensure the availability of qualified leadership talent, strengthen organizational resilience, minimize operational risks arising from leadership transitions, and maintain a robust pipeline of competent officers capable of supporting the Bank's long-term sustainability, growth, and sound corporate governance.

REMUNERATION POLICY FOR THE BOARD AND SENIOR MANAGEMENT

BancoLagawe is committed to attracting, retaining, and motivating high-performing directors and senior management personnel who are crucial for achieving the Bank's strategic objectives. This Remuneration Policy outlines the principles and practices that guide the determination of compensation and incentives for these key personnel groups.

Budget and Approval Process

- The total remuneration and incentives budget for the Board of Directors and Senior Management is established through a rigorous process.
- The Board of Directors, after considering relevant factors, proposes an annual budget for Board and Senior Management compensation and incentives.
- This proposed budget is then submitted to the Bank's Stockholders for confirmation during the Annual Stockholders' Meeting. This ensures transparency and alignment with shareholder interests.

Compensation Principles

- BancoLagawe benchmarks its compensation and incentives against industry best practices and relevant market data. This ensures that the Bank offers competitive packages to attract and retain top talent.
- Remuneration for senior management is designed to be performance-based, with a portion of compensation linked to the achievement of predetermined individual and Bank-wide performance goals. This alignment incentivizes strong performance and reinforces the connection between individual contributions and overall success.
- The specific compensation and incentives package for each position considers various factors. These include the complexity of the role, the level of responsibility undertaken, and the inherent risks associated with the position. This ensures that compensation reflects the value and significance of each role within the Bank's leadership structure.
- The Board of Directors is committed to ensuring transparency in the application of this Remuneration Policy. The principles and factors considered when determining remuneration packages will be clearly communicated to all relevant parties.

Salary Grade Scheme

- BancoLagawe maintains a structured salary grade scheme that establishes a baseline compensation framework. This scheme considers factors such as experience, qualifications, and market competitiveness.
- The salary grade scheme serves as a foundation upon which individual compensation packages are built. Additional considerations, such as performance, role complexity, and responsibilities, are then factored in to determine the final compensation package for each position.

BancoLagawe strives to create a compensation and incentives program that is competitive, performance-driven, and reflects the unique contributions of its Board of Directors and Senior Management team. This approach fosters a culture of performance excellence, attracts and retains top talent, and aligns the interests of directors, senior management, and shareholders with the long-term success of BancoLagawe.

RELATED PARTY TRANSACTIONS

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

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

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

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 AND 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.

DOSRI TRANSACTIONS

1. Only one (1) DOSRI Loan with a principal balance of P4,200,000.00 was released in 2024. By the end of the year, it registered an outstanding balance of P3,355,846.88

2. Lease Agreement for the office space of Lamut Branch-lite was approved by the Board in November 2023. Office building is owned by Director Dexter B. Dugyon.

3. DOSRI deposits for 2025 totaled P31,801,773.00

MATERIAL RELATED PARTY TRANSACTIONS

By the end of year 2025, the Material Related Party Transactions on the Bank's record consists of:

1. Total credit accommodations with outstanding balance of P23,164,410.59 , consist 3.17% of the total loan portfolio;

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 proper 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 that should normally be reviewed by the internal auditor. This directive will not preclude 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, and internal controls) and the Board of Directors (BOD) regarding how to better execute their responsibilities.

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 his duties.

The definition and regular revision of the scope of the function should be agreed upon by 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 his 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 his remuneration, activity appraisal, and career advancement. The IA is liable to disciplinary action but only with the concurrence of the RMAC and expressed approval of the BOD. This could happen if the IA is negligent in the performance of his 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 a parallel copy to the President/CEO.

Although the Internal Auditor is paid by the bank, the human resource budget of the IA, in particular, should be protected from interference from Management. The typical risk is that the audit's budget subject to the approval of the 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, records (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 the bank is not truly supportive of the IA's mandate and the bank's commitment to sound governance.

PROFESSIONAL COMPETENCE AND ETHICS

- Internal audit shall comprise of professional and competent individuals who collectively have the knowledge and experience in all areas of 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 audit activities.
- Internal Audit Personnel shall act with integrity in carrying out their duties and responsibilities.
- Internal Auditors should respect confidentiality of information acquired in the course of performance of duties and should not be used for personal gain/malicious actions.
- Audit personnel should avoid conflict of interest. Internally recruited internal auditor shall not engage audit activities for which they have had previous responsibility before a one-year cooling off period has elapsed.
- Internal Auditor shall adhere at all banks' Code of Ethics as well as established code of ethics for internal auditors such as the Institute of Internal Auditors.

DUTIES AND RESPONSIBILITIES

- To demonstrate appropriate leadership and have the necessary skills to fulfill his responsibilities for maintaining the unit's independence and objectivity.
- To be accountable to the board of directors/ RMAC on all matters related to the performance of its mandate as provided in the internal audit charter.
- To ensure that the internal audit function complies with sound internal auditing standards.
- To develop a comprehensive audit plan based on risk assessment, including inputs from the board of directors, audit committee, and senior management. The internal auditor shall ensure that the audit plan, including revisions, shall be approved by the audit committee and confirmed by the board of directors.
- To submit report to the Risk Management and Audit Committee or Board of Directors on the status of accomplishments of the internal audit, including findings noted during the conduct of audit as well as the status of such compliance of concerned department/branch.
- To ensure that the audit function has adequate human resources with sufficient qualifications and skills necessary to accomplish its mandate. In this regard, the skillset of the internal audit function shall be periodically assessed and monitored by the head of the internal audit function.
- To ensure an adequate development program for the internal audit staff that shall enable them to meet the growing technical complexity of banking 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, the internal auditor must address risks consistent with the engagement's objectives and be alert to the existence of other significant risks. The 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.

SCOPE

All processes, systems, units, and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, the following:

- Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management and governance systems in the context of current and potential future risks;
- Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;
- Review of the systems and procedures of safeguarding the bank's physical and information assets;
- Review of compliance of trading activities with relevant laws, rules and regulations;
- Review of the compliance system and the implementation of established policies and procedures; and
- Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level; regulatory and internal reporting.

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 functions for the 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). The 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 their 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 a review/ investigation of possible breaches of the Compliance Program and to request assistance from specialists within the bank (I.T Specialist, Legal Officer) or engage outside experts to perform this task under advice to the Board of Directors or the Compliance Officer in his discretion finds it appropriate.

3.The Compliance Officer and his/her staff will be free to report to the Board of Directors or the Risk Management and Audit Committee (RMAC), on any irregularities or possible breaches

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 government taxes, treating customers fairly and ensuring the sustainability 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)
- R.A 3765, The Truth in Lending Act
- Labor Code of the Philippines
- Social Security System (SSS) R.A No. 9501 or the Magna Carta for Micro, Small and Medium Enterprises.
- The Agri-Agra Reform Credit Act of 2009
- R.A 1405 (Law on Secrecy of Bank Deposits)
- Barangay Micro Business Enterprises (BMBE's) Act of 2002
- The Revised Corporation Code of the Philippines
- Implementing Rules and Regulations and amendments of the above statutes
- Any other Act related to banking that is in force at present or may come into exercise in the 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 by SSS from time to time.
- Guidelines issued by PhilHealth from time to time.
- Guidelines issued by 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 Government agencies that affect the Bank.

Internal Guidelines:

- Bank Policies
- Bank Contracts and Agreements entered into by Management

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 function 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 the compliance function policy in the bank for managing compliance risk. It will also oversee the implementation of the policy by the Compliance Officer. It will take a quarterly review of the compliance function and conduct annual assessments of the Compliance Officer's effectiveness and progress, if necessary.

Top Management Responsibilities

1. Top management will be responsible for ensuring that the compliance function is properly established within the bank. They will ensure the following in the implementation of the compliance function:

- They will identify and assess the compliance risk facing the bank with the assistance of the Compliance Officer and formulate plans to manage them.
- They will resolve the compliance issues effectively and expeditiously with the assistance of the Compliance Officer.
- 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:

- The Compliance Officer will identify the business functions of the bank that fall under each statutory and regulatory guideline.
- The Compliance Officer 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 Compliance Officer 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 overall for coordinating the identification and management of the bank's compliance risk and supervising the activities of the compliance function staff. He will ensure the following:

- Identify and assess the compliance risk through all business levels of the bank and submit plans to manage the risk to the BOD/RMAC.
- Submit a report to the BOD during BOD regular Board meeting on the level of compliance risk.
- 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 reputation.
- 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 any of the Board Committees.

Senior Management

1.It will be the responsibility of the Senior Management 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 staff that preferably have knowledge of law, accountancy and information technology and also adequate practical experience in various business lines and audit/inspection functions. The compliance staff should have a 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 the 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 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 Program

The Compliance Program should be reviewed annually covering the following aspects:

- Compliance failures if any during the preceding year and consequent losses and regulatory action and also steps taken to avoid recurrence of the same.
- List of all major regulatory guidelines issued during the preceding year and steps taken for implementation.
- Independence of compliance function.
- System of internal control to minimize compliance risk.
- 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

The 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.

INTERNAL CONTROL RESPONSIBILITIES OF THE BOARD

The Board is responsible in setting a control environment that:

1. Ensures the bank is properly and effectively managed and supervised;
2. A management that actively manages and operates the corporation in a sound and prudent manner;
3. The organizational and procedural controls supported by effective management information and risk management reporting systems;
4. 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;
5. 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.

DIVIDEND POLICY

BancoLagawe recognizes the importance of returning value to its shareholders. This Dividend Policy outlines the framework for determining dividend distributions, ensuring a balance between rewarding our shareholders and maintaining the Bank's financial health.

- Following the end of each fiscal year, the Board of Directors diligently reviews the Bank's financial performance. A crucial aspect of this review involves determining the distributable profits available for that period.
- In making this determination, the Board prioritizes the Bank's long-term sustainability. This includes assessing the financial resources required to support operational needs and investment plans for the following twelve months. By balancing dividend distributions with future financial requirements, the Bank ensures it can continue serving customers and delivering long-term value to shareholders.
- The Stockholders play a vital role in the dividend distribution process. The Board proposes a dividend payout consistent with the Bank's approved operating and investment plans. This proposal is then presented to the Stockholders for ratification during the Stockholders' meeting. This collaborative approach fosters transparency and alignment between the Bank's management and its shareholders.
- The Board of Directors meticulously considers several key factors when determining the final dividend amount for each fiscal year.

>Debt-to-Equity Ratio: A healthy debt-to-equity ratio indicates the Bank's financial stability and ability to manage its debt obligations. The Board considers this ratio to ensure dividend distributions do not jeopardize the Bank's financial strength.

>Financial Operating Needs: The Bank's ongoing operational requirements are also factored into the dividend decision-making process. Sufficient resources must be allocated to support essential banking operations and ensure the delivery of high-quality services to our customers.

BancoLagawe's commitment to its dividend policy is demonstrated by our actions. In 2025, the Bank declared cash dividends of P11.5 Million to shareholders on record as of December 31, 2024. This distribution reflects our dedication to sharing our financial success with our valued shareholders.

CORPORATE SOCIAL RESPONSIBILITY

As part of BancoLagawe's continuing commitment to community development, youth empowerment, and education, the Bank allocates donations to infrastructure projects that enhance community environments and promote a better learning experience for both learners and educators.

In line with its Corporate Social Responsibility (CSR) program and its support for Sustainable Development Goal (SDG) No. 4 – Quality Education, BancoLagawe donated construction materials for the improvement of the school stage and the Principal's Office of Julongan Elementary School during the first quarter of 2025. This initiative aimed to enhance the school's facilities and provide a more conducive working and learning environment for teachers, staff, and students.



**DONATION OF CONSTRUCTION MATERIALS FOR THE IMPROVEMENT
OF THE STAGE OF JULONGAN ELEMENTARY SCHOOL**

March 12, 2025

CORPORATE SOCIAL RESPONSIBILITY



**DONATION OF CONSTRUCTION MATERIALS FOR
THE IMPROVEMENT OF THE PRINCIPAL'S OFFICE
OF JULONGAN ELEMENTARY SCHOOL**

MARCH 12, 2025

CORPORATE SOCIAL RESPONSIBILITY

Financial literacy for youth bridges the opportunity gap, transforming how the next generation navigates economic realities like student debt, inflation, and digital finance.

The event is facilitated by the bank's President and CEO, Mr. Therence G. Batulon, this initiative aimed to educate the young generations on the importance of proper management of finances and this event helps break systemic cycles of poverty and build a consumer base equipped to make responsible choices.

We believe that building a good financial education foundation is a powerful tool in shaping their future.



Noah's Ark Ministry Foundation
Sitio Hiwang, Barangay Viewpoint, Banaue, Ifugao
MAY 22, 2025

CONSUMER PROTECTION PRACTICES

ROLES AND RESPONSIBILITIES OF OVERSIGHT BODIES

1. Board of Directors

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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.

2. Senior Management

- 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.
- 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

3. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

- 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.
- The BOD and Senior Management must ensure that sufficient resources are devoted to the customer protection program.
- They must ensure that customer protection program's weaknesses are properly addressed and corrective actions are taken in a timely manner.
- 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.
- The Board and Senior Management must 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.
- 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 according 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.

Based on existing financial customer protection standard risks as identified and profiled by the Bank.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

CONSUMER PROTECTION RISK CONTROL, TECHNIQUES, AND STRATEGIES

BancoLagawe follows key protection principles in building up its good relations to its clients. Each principle is embedded in its operations, such as; credit extension, deposit taking and other banking activities involving the participation of its clients. The Bank ensures that the principles are carried out effectively and efficiently by its employees through proper and regular orientation of bank products and services and training on policies and procedures. The protections standards are defined and explained below:

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:

- 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;
- 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;
- 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 Director should inhibit in the approval process of his own loan.
- 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:

- The Bank must have well defined IT processes and procedures and a designated IT department to handle the entire system;
- All computers being utilized for storing and retrieving data and information of customers must have an automatic log-off and log-in.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

Fair Treatment

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

- Loan products must be priced based on competition lending rate after surveys are conducted;
- The Bank should involve its customers in designing its loan and deposit products by getting their opinion or ideas through the suggestion box system.
- 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 interest, the Bank must:

- 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:
- 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:

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- The Bank must initiate financial education to empower customers to provide knowledge and skills and understand the information from products and services offered by the Bank;
- 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 product and services. The program must meet the literacy of 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

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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- 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:

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

- A review of Branch's documentation and filing of customer complaints;
- Test the process of the Branch's complaint mechanism and system.

Financial consumer protection policies and procedures

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

OVERSIGHT BODIES

1. Policies

- The Risk Management and Audit Committee/ Board of Directors (BOD), shall oversee the implementation of the financial customer protection program of the Bank;
- The Senior Management shall implement the policies and procedures of this Manual:
- The Senior Management shall see to it that complaints are reported on a regular(monthly) basis.

2. Procedures

- 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.
- 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 Service Officers.

DISCLOSURE AND TRANSPARENCY

1.Policies

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

CONSUMER PROTECTION RISK

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.

- 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.

2. Procedures

Cashiers/ Tellers

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

1. Policies

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

- 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.
- 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;

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- No employee, director, or officer of the Bank should accept a commission or incentive arising from insuring a customer to the accredited insurance company.

2. Procedures

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

DOSRI LOAN

1. Board of Directors

- Board of Directors concerned inhibit from the deliberation of loan;
- Review the application/files/ documents and approve/ disapprove the loan;
- Prepares Board Resolution for the approval of DOSRI Loan.

2. Operations Department

- Processes for the release of the DOSRI Loan
- Prepares DOSRI Loan and Other Accommodation Report together with Board Resolution for transmittal to BSP.

PROTECTION OF CLIENT INFORMATION

1. Policies

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;

- Bank shall have a manual of IT policies and procedures and control administration concerning IT risks;
- 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.
- 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.

- 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

2. Procedures

IT Officer/ Specialist

- Reviews the computerized system of customers' process flow of information to determine if there are data which are utilized by non-users;
- Installs automatic log-off, log-on, possibly 5-minute after inactivity, to all computer users of customer information who do not have this protection.

HR Officer

- Provides all employees personnel handbook which contains policies on customer service and protection of client information;
- Prepares and implements a training plan for all employees with priority given to employees who have direct face-to-face contact with customers.

Operations Head/ Marketing Department

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

Chief Compliance Officer

- Assesses compliance to customer protection standards;
- Reports any deviation or risk area to the Board of Directors, through the Risk Management and Audit Committee (RMAC);
- Monitors compliance of branches to noted deviation or risk areas.

Internal Auditor

- Reviews the documents and process to determine the efficiency and adequacy of policies related to the protection of client information;
- Reports audit findings, exceptions or weaknesses of policy to the Board of Directors through the Risk Management and Audit Committee (RMAC).

Board of Directors/Risk Management and Audit Committee (RMAC)

- Provides action on reported Bank's weaknesses on client protection.

FAIR TREATMENT

1.Policies

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- All employees shall provide special care and attention to customers with special needs and physical defects.
- The Bank Management shall ensure that the products and services offered are advantageous, appropriate, helpful and suitable to the banking needs of its customers.

2. Procedures

- **Branch Manager and Cashiers/Tellers (Jointly)**

- 1.Asks the customer to accomplish application for new accounts (deposit) or loan application for loan and allow the client to certify the given information;
- 2.Informs the customer that the Bank will conduct verification and provide the proper services based on the given information;
- 3.Explains to the borrower that the information may be shared with other financial institution(s) or individuals with whom he/she may give written consent or by any order of a competent court;
- 4.Manager conducts regular branch meetings to cascade important policies and procedures on customer protection to the members of the branch including disciplinary actions to be imposed in case of customer mistreatment, serious infractions or harrasment.

- **HR Officer**

- 1.Checks the employee performance evaluation form if it contains customer protection that focus on quality service as one of its parameter;
- 2.Cascade to all employees that such parameter shall be part of the annual performance evaluation.

- **Senior Management/ Corporate Governance Committee**

- 1.Approves the impositions of disciplinary action for breach of customer protection and services by employees.

REMUNERATION STRUCTURE

1.Policies

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- 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 the number of cases settled/ served);
2. Compliance with regulatory requirements, best practices guidelines, and Code of Conduct in certain principles related to the best interests of customers.

2. Procedures

- **Branch Manager and Loan Account Officer**

1. Clarifies with the customer the presence of an incentive scheme in the solicitation of products and services, if known to the customer;
2. Assures the customer that the incentives scheme is not related to interest rates or service charges imposed on the customer.

- **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

- **Customer Assistance Officer (CAO)**

1. Conducts investigation for any complaint against an employee;
2. Provides result of investigation to the Head CAO.

- **Senior Management**

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

EFFECTIVE RECOURSE

1. Policies

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- 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
 - Action taken to resolve each complaint
 - Date of complaint was resolved
- 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.
- All Staff handling complaints should have appropriate experience, knowledge, and expertise.

2. Procedures

- **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.

- **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 for review and recommend actions for approval by the Board of Directors.

- **Senior Management**

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

- **Board of Directors**

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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

FINANCIAL EDUCATION AND AWARENESS

1. Policies

- Financial education shall be integral to the good governance of BancoLagawe.
- 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.
- The Bank shall design its financial education and awareness materials to the level of literacy of customers like the dialect spoken and the use of simple and clear statements.
- 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
- Branches shall distribute to customers, before opening a deposit account or apply a loan, a pamphlet on questions that customers need to ask.
- The Bank shall develop updated financial education tools for customer responsibility to ask the right questions, such as:
 - customized advice and guidance (face-to-face)
 - printed brochures, flyers, posters training videos (debt/money/savings management), newsletters, websites
- 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

- 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 post 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.

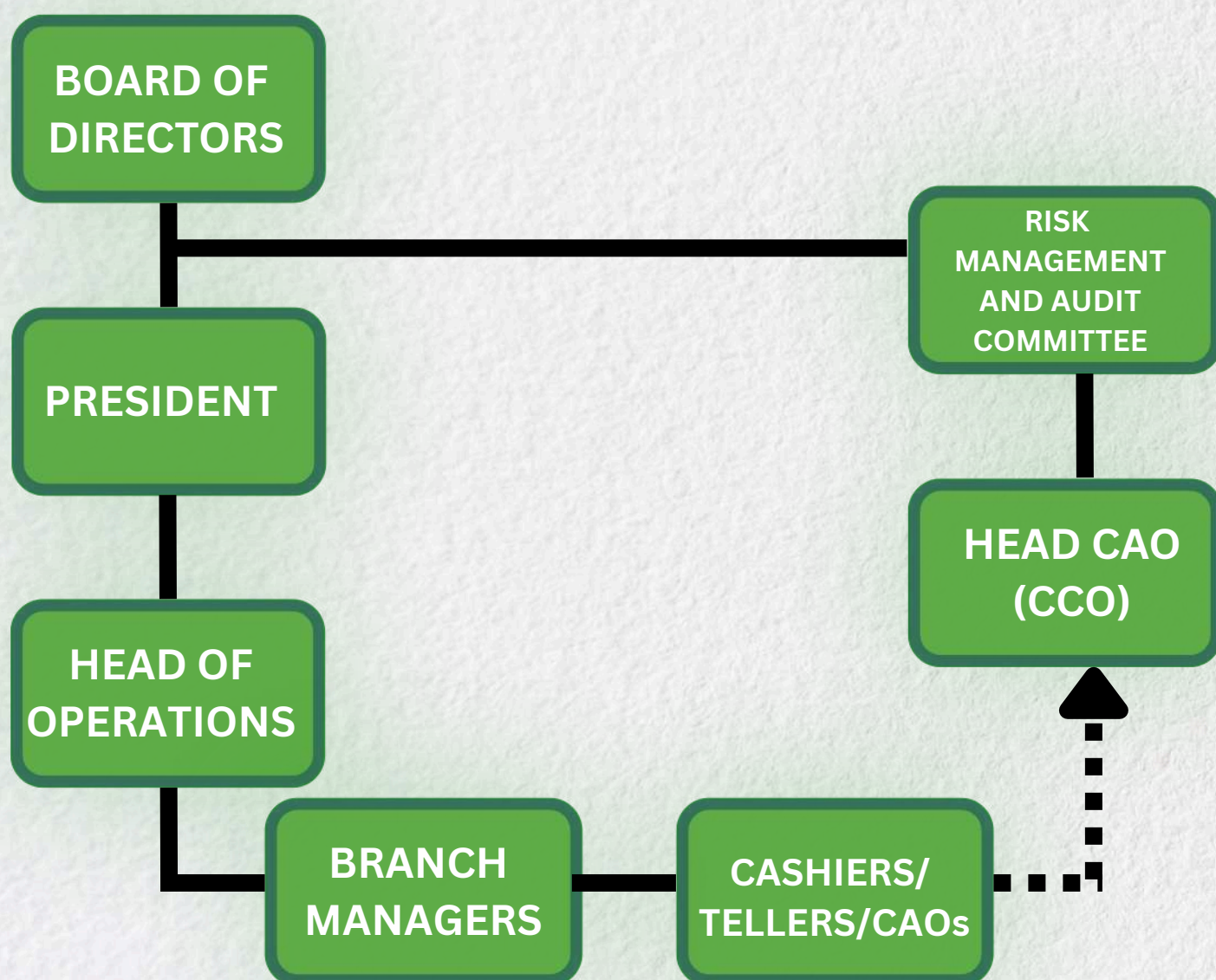
LOAN ACCOUNT OFFICER

1. Provides flyers or brochures to customers as they visit the Bank;
2. Explain the main features, data and information per flyer or brochure.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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:



CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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 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 the concerns of the customers. 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, send 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. Reposts 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:

- Solid interpersonal skills/customer service;
- Basic and advanced listening skills;
- Written and verbal communication skills;
- Handling financial customer feedback;
- Dealing with difficult people;
- Problem solving and conflict resolution;
- Bank's corporate structure, products and services

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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

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. Loan Account Officer (LAOs) 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

CUSTOMER ASSISTANCE PROCESS AND TIMELINES

STEP	ACTION/S TAKE BY BANK	RESPONSIBLE TIME	PERSON IN CHARGE	FORMS
1.Receiving and Acknowledgement				
a. Walk-in clients: -Fill out the complaintform	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 the 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	Within 2 days	Customer Assistance Officer	

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

STEP	ACTION/S TAKE BY BANK	RESPONSIBLE TIME	PERSON IN CHARGE	FORMS
	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	
	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

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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, but 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 complaint/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 to 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 request 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 CAO 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 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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 AND CONFLICT OF INTEREST

Confidentiality

The Bank or its personnel shall not disclose to a third part an 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 manner 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 a satisfaction survey available for walk-in complaints. The Bank, through its IT Specialist, can derive surveys via its website.

Customer feedback shall be recorded and analyzed by the Head CAO in order to improve the system and enhance personnel capabilities in handling complaints, and determine the weakness 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 the feedback mechanism shall focus on not repeating the same complaint by other customers and to determine whether such issue is isolated or widespread or a system problem of the Bank.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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 the date of resolution. Digital copiers 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 complaint
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 the resolution falls outside the regulator 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 place customer protection risk assessment strategies in order to attain the following purposes:

1. It identifies and remedies any recurring or systematic 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.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

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

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.

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

- General category of complaints received;
- Statistics and frequency of said complaints;
- Aging of complaints or requests;
- Explanation on deviation, if any, from required resolution period; and
- General description of resolutions or actions taken to resolve the complaints or requests.
- The report shall include recommendations on how to avoid recurring complaints and suggestions for process/personnel competency improvement or property improvement if any.
- The Bank's Internal Audit report 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.
- 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 2025.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

INTERFACE WITH BSP

1. BSP Reporting

- The Bank shall submit a consolidated Complaints Report to the Supervisory Data Center of the SES on a quarterly basis.
- Such report shall be reported in a format required by BSP not later than 1 month after each quarter.

2. SANCTIONS AND PENALTIES

Internal

- Administrative sanction under the 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 is found violating the law(s) which requires the Bank to prosecute an employee.

BSP

- 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.

3. INTERFACE WITH BSP

- 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- 7078

E-mail Address: consumeraffairs@bsp.gov.ph

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM

ACCOUNTABILITY AND REWARDS

The Bank applies a performance evaluation system for personnel handling the complaints/ requests and may link to the 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 PWD's (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.



LAGAWA HIGHLANDS RURAL BANK, INC.

SUSTAINABLE FINANCE

SUSTAINABLE FINANCE

Sustainable Finance: Advancing Purposeful Growth in 2025

Sustainable Finance is gaining significant traction in the Philippines, and rural banks like BancoLagawe are emerging as key drivers of this movement. Our deep understanding of the local context, together with our commitment and dedication of integrating environmental, social, and governance (ESG) principles into its core operations, positions us uniquely to promote and support sustainable growth in underserved and rural communities.

Institutional Commitment to the SDGs

BancoLagawe reiterated its commitment to the Sustainable Development Goals (SDGs) of the United Nations in 2025 by a multi-sectoral, results-driven strategy. Based on an improved framework for sustainable finance, the bank reinforced its incorporation of sustainability into community-based, operational, and lending programs.

Key SDG-aligned projects and outcomes include:

1. SDG 2: Zero Hunger

- The bank collaborates with the Agricultural Guarantee Fund Pool (AGFP) to offer small-scale farmers easily accessible loans and financial services. Lending to small farmers and fishermen, who are recipients of the agrarian reform, is given priority in order to close the funding gap for small agricultural producers.

2. SDG 4: Quality Education

- Sustained an active scholarship partnership with Saint Mary's University, currently supporting five accountancy scholars.
- Successfully conducted financial literacy program at the Summer Youth Camp for the Assemblies of God on May 22, 2025 at Noah's Ark Ministry Foundation, Banaue, Ifugao conducted by the President/CEO.
- Four (4) college-age children of each employee who has completed 12 years of devoted service are currently awarded under the 12-CARE (College Assistance Reward for employees) program.
- Donated materials for the improvements of the stage and Principal's Office of Julongan Elementary School in the 2nd quarter of 2025 to help improve working/studying conditions.

3. SDG 3: Good Health and Well-being

- Maintained the employee Medical Care Program as part of its standard employee benefits.



SUSTAINABLE FINANCE

4. SDG 7: Affordable and Clean Energy

- Rolled out Solar Energy Loan products, with a portfolio of ₱1.8 million as of December 2025.
- After the Solano branch pilot in 2023, solar power installation plans for the Lagawe and Bambang branches were completed in early 2025. This will promote the usage of renewable energy in the area and to help reduce operational carbon footprint.

5. SDG 8: Decent Work and Economic Growth

- Progress has been made toward the establishment additional branch-lite units (BLUs) to improve banking access and stimulate local employment creation.
- Expansion strategies remain closely tied to the bank's financial performance and capital position.

6. SDG 13: Climate Action

- Advanced efforts to embed environmental risk screening into the loan evaluation process.
- Maintains a non-financing policy for projects with known harmful environmental impacts.

Performance Monitoring and Challenges

While significant progress was made, certain targets remain partially or non-compliant:

- No trainings were conducted on sustainable finance in 2024 for staff or external partners.
- Monthly social media campaigns on sustainability themes were not consistently posted, falling short of communication goals.
- Planned partnerships and some planned medical missions were not realized due to coordination and capacity constraints.

Looking Forward - Strengthening Impact in 2026

To deepen its sustainability impact, BancoLagawe will focus on the following in 2026:

- Comprehensive revision of its Sustainable Finance Framework to ensure full alignment with evolving regulatory expectations;
- Formalize environmental and social risk assessments within credit evaluations.
- Reinvigorate stakeholder engagement through regular sustainability reporting, social media campaigns, and collaborative community partnerships.
- Prioritize capacity-building programs on sustainable finance for both internal staff and external stakeholders.
- Expand loan offerings in green sectors such as sustainable agriculture, energy efficiency, and rural enterprise development.

SUSTAINABLE FINANCE

The worldwide market for sustainable investments is expanding quickly, and BancoLagawe is well-positioned to take advantage of this momentum after making significant progress in 2025 to connect its business model with sustainable development. In addition to demonstrating regulatory compliance, the bank can influence a better future for the community and the planet as a whole by emphasizing environmental and social responsibility while providing outstanding financial services.

BancoLagawe hopes to become a leading example of green banking in the Philippines through our unwavering dedication to sustainable practices. As we work together to create a more sustainable and just future for future generations, we cordially ask our stakeholders to accompany us on this journey.

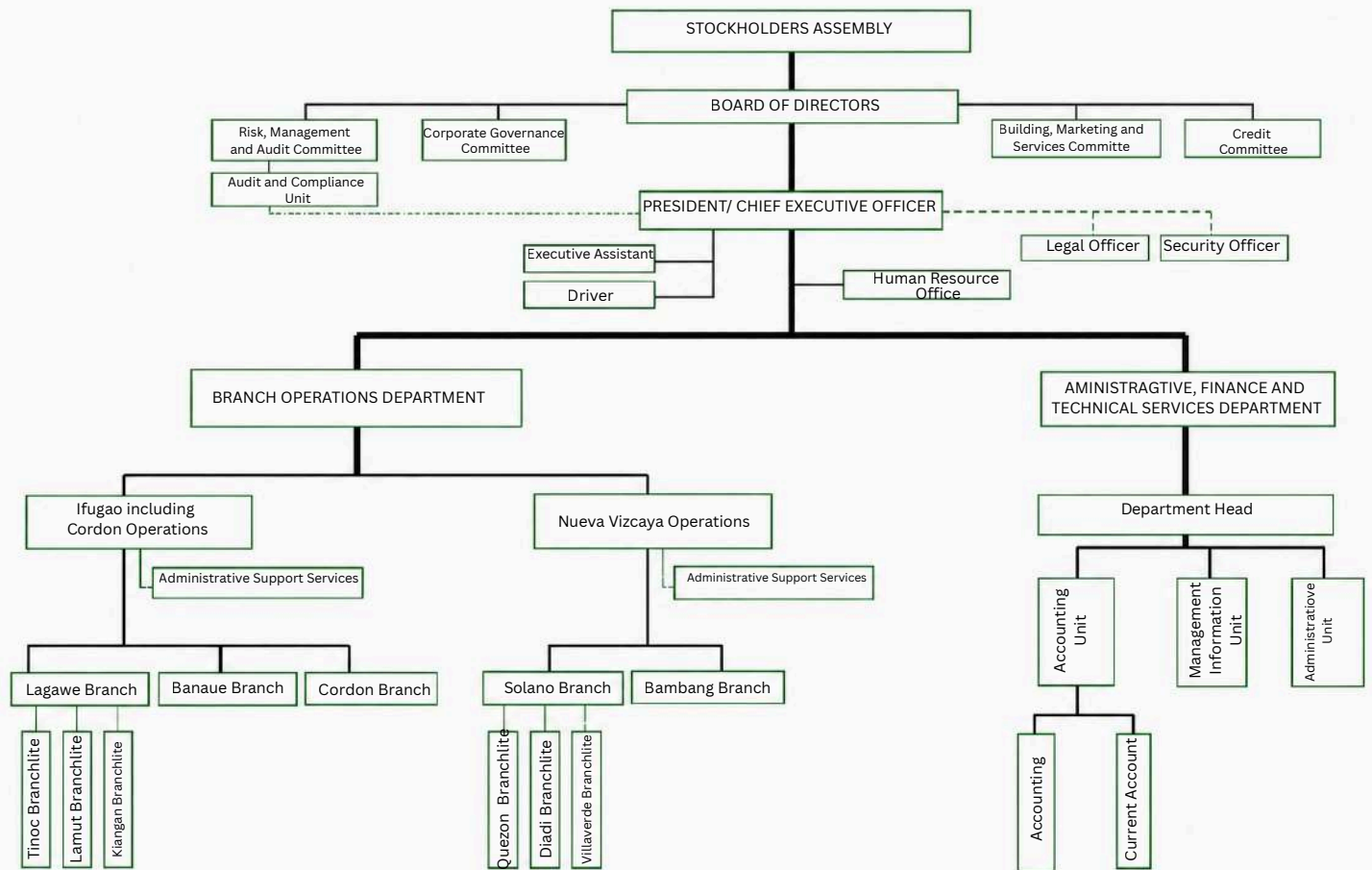




LAGAW HIGHLANDS RURAL BANK, INC.

CORPORATE INFORMATION

ORGANIZATIONAL STRUCTURE



2025 MANAGEMENT DIRECTORY

PRESIDENT AND CEO	THERENCEG. BATULON	0955-240-1124
ASSISTANT VICE PRESIDENT/HEAD OF OPERATIONS -IFUGAO AND CORDON	OLIVIAG.GABUL	0917-811-5481
ASSISTANT VICE PRESIDENT/HEAD OF OPERATIONS - NUEVA VIZCAYA	OFELIA M. DECORO	(078) 326-5320
HEAD OF ADMIN, FINANCE AND TECHNICAL SERVICE DEPARTMENT	ROLAND B. REYES	(078) 326-5320
HEAD OF INTERNAL AUDIT/ CHIEF COMPLIANCE OFFICER	DIANA DEAN C. ATIENZA	(078) 326-5320
LAGAWE BRANCH	SUDIMAY A. AQUINO	0965-835-0271
SOLANO BRANCH	ALFREDOP. ARZADON JR.	0975-177-2692
BAMBANG BRANCH	HARRIS D. CACLINI	0935-265-8057
BANAUE BRANCH	JULIET M. GANO	0935-271-9157
CORDON BRANCH	EILEEN B. MAGUILING	0935-271-9157

MAJOR STOCKHOLDERS

NAME AND NATIONALITY	SHARES SUBSCRIBED				
	Type	Number	Amount(Php)	% of Ownership	Voting Satus
PhilippineRural Reconstruction Movement (Filipino)	Common Share	2,892,838	28,928,380.00	41.33%	Voting

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	• With specific loan duration based on prevailing maximum terms offered by the bank. • 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 30 calendar days from the date of approval. Note: A redo of bank check and updating of financial data shall be required if data submitted is more than 30 calendar days from the date of approval. The updated credit proposal with the updated data shall be presented again for approval to the Head of Branch Operations or President/CEO (in the case of P/CEO, Credit Committee and BOD approved loans) as appropriate.
CREDIT LINE	• Has a maximum credit line validity of twelve (12) months. Paid principal amortization can be re-borrowed as long as the existing line has not expired. • Maximum term per promissory note is one year. • Is limited to business, contractor, and agricultural loan products. • 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. • Contractor Loan a) Borrower must be a licensed contractor or sub-contractor of a licensed contractor; b) With good track record of at least two (2) consecutive years as a contractor/subcontractor within the region of operation; and c) Profitable as a contractor/sub-contractor for the past 2 years. • Not applicable for new borrowers.

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

II. LOAN PRODUCTS

Product	Purpose of Loan	Mode of Payment	Maximum Loan Amount	Maximum Term of Loan
Agricultural Loan	Farm production	Lumpsum, pre-deducted interest	Depending on the crop, based on the Financial Validation Guide.	If the purpose is for farm production, the maximum term is 1 year. For other purposes but under agriloan product, the maximum term is 60 months
	Purchase of farm equipment/ machineries	Based on Cash Flow	85% of the cost of equipment/machinery (in most cases, borrower cannot provide their counterpart thus requesting for 100% instead of 85%, same with housing loan, asset acquisition for eqpt and business development construction)	
	Farm improvement/ development	Based on Cash Flow of the source of payment	100% of the cost of improvement/ development; to be released in tranches.	
Commercial Loan	Specifically for business use - 1) collateralized loan for working capital, 2) business development (start up) - provided borrower has other existing business 3) asset acquisition - lot, building, machinery & equipment, vehicle purchase for business 4) construction projects - mobilization and working capital for projects 5) PDC Loan for additional working capital	Based on cash flow of the business	New Borrower - P5million; Existing Borrower who passed the criteria - P10million	a) Credit Line - validity is one year; maximum term per drawdown is one year. B) Term Loan - maximum term of 60 months

Product	Purpose of Loan	Mode of Payment	Maximum Loan Amount	Maximum Term of Loan
Other Loan Products:				
Asset Acquisition	Acquisition of assets (except purchase of machinery/ equipment under agricultural loan, and purchase of first residential house and/or lot which are under housing loan)	Depending on the source of payment and cash flow	Lot acquisition 100% of the cost	Maximum of 60 months
			Purchase of equipment/ machineries/vehicles 75% of cost of item to be purchased	
Mortgage Redemption	Redemption/ repossession of property mortgaged; loan buy-out from a private individual, pawnshop or corporation.	Depending on the source of payment & Cash Flow	100% of the mortgage	Maximum of 60 months
OFW Loan	Visa Application – Back-to-Back (on- us deposit)	Monthly; lump sum for back-to- back loan.	Placement & Visa	Maximum of 24 months
	Working Visa application/Placement Fees; Show money		Application Fees - depending on country of destination; 100% of amount needed if deposit is on-us (interest is pre-deducted and all charges paid)	
Salary Loan Dep-ED Non-Dep-ED	Education expense	Monthly (deducted from salary)	1/5 of the basic pay + regular or fixed allowances times the term of loan, provided the net take home pay (NTHP) after loan amortization should not be below P4,000 for private institutions and the annual GAA provision for government employees.	Maximum of 60 months

Product	Purpose of Loan	Mode of Payment	Maximum Loan Amount	Maximum Term of Loan
Salary Loan Dep-ED Non-Dep-ED	Medical expense	Monthly (deducted from salary)	Note: The percentage provided in the MOA with institutions shall be followed until amended.. Maximum loan for DEP-ED Loan P500thousand.	Maximum of 60 months
	Home appliances			
	Vehicle acquisition			
	Home improvement			
	Other consumption needs			
Housing	House construction, house improvement and expansion, and purchase of house and lot	Depending on the source of payment & Cash Flow	85% of construction cost and purchased cost	Maximum of 60 months
Fringe Benefit Loan (FBL) For BancoLagawe Employee only	Education expense	Monthly (deducted from salary)	1/5 of basic salary + fixed regular allowances times term of loan	Maximum of 60 months
	Medical expense		Up to the monetary value of accumulated earned sick leaves at the time of application and/or loanable value of deposit or REM (combination or all)	
	Home appliances			
	Vehicle acquisition		NTHP should not be lower than P1,500.00 per pay day, including the deduction of loan amortization/s with other institutions where the source of payment is from salary of employee.	
	First home of employee			
	Home improvement			
	Other consumption needs			
Pledge Deposit Loan	Working Capital	Monthly; automatic payroll deduction for salary based source of payment	90% of pledge deposit	Maximum of 36 months
	Education expense			
	Medical expense			
	Housing			
	Home appliances			
	Other consumption needs			

Product	Purpose of Loan	Mode of Payment	Maximum Loan Amount	Maximum Term of Loan
PDC/ Character Loan	Use of PDC for other purposes not related to business	based on cash flow	PHP 150,000 1st cycle	Maximum of 24 months
			PHP 300,000 2nd cycle	
			PHP 500,000 3rd cycle	
Back-to-Back Loan	Offered to client with existing deposit with the bank for at least 3 months, no negative derogatory record and permanent resident with in the Bank’s area of operation.			
Autoflex Loan	Purchase of brandnew motor vehicles (cars & motorcycle); Purchase of Japan Surplus trucks (first registration in the Phils.)	Monthly	Dependent on the amount of downpayment which should not be lower than 30% of the vehicle price	Maximum of 60 months

- **DOSRI Loans** - 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 Corporations/Organizations:** (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	Deposit refers to interest- or non-interest-bearing account designed to promote financial inclusion	1,000.00
Regular Savings	Deposit where you can withdraw and deposit anytime at any banking day.	2,000.00
Kiddie/Teen Savings	Deposits open by students from Nursery/Kinder, Elementary, High School, and College. It can be withdrawn during school days for educational needs.	1,000.00
Pledge Savings	It is a savings plan that requires a specific term of not less than three (3) years. Interest earned shall be forfeited in case of breach of contract. Monthly deposit is required and the amount shall be stipulated in the form of a contract.	5,000.00
Premium Deposit	It is a deposit that requires a minimum maintaining amount of Php50,000.00 to earn interests	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.	20,000.00
Long Term Deposit	Minimum Deposit of Php 20,000.00 with a term of five (5) years and one (1) day. Pre-termination rates apply.	20,000.00

IV. BANKING UNITS

BRANCH/ BRANCHLITES	REGION	PROVINCIAL LOCATION	CITY/ MUNICIPALITY	BLDG. # STREET NAME, VILLAGE/ BARANGAY	CONTACT NUMBER
LAGAWE BRANCH	CAR	Ifugao	Lagawe	#59 JP Rizal Avenue, Poblacion East	0965-835-071
SOLANO BRANCH	II	Nueva Vizcaya	Solano	1F Simon. Barangay Quirino	0935-536-2807
BAMBANG BRANCH	II	Nueva Vizcaya	Bambang	NVAT Compound, Almaguer North	0935-265-8057
BANAUE BRANCH	CAR	Ifugao	Banaue	Ilogue, Tam-an	0935-271-9157
CORDON BRANCH	II	Isabela	Cordon	Purok 2, Brgy. Laurel	0965-682-7922
QUEZON BRANCHLITE	II	Nueva Vizcaya	Quezon	Purok 3, Brgy. Aurora	0917-134-7996
TINOC BRANCHLITE	CAR	Ifugao	Tinoc	Poblacion	0906-726-5210
DIADI BRANCHLITE	II	Nueva Vizcaya	Diadi	National Highway, Poblacion	0906-726-5210
VILLAVERDE BRANCHLITE	II	Nueva Vizcaya	Villaverde	Purok 3, Ibung	0936-221-2848
LAMUT BRANCHLITE	CAR	Ifugao	Lamut	Poblacion West	0997-354-1187
KIANGAN BRANCHLITE	CAR	Ifugao	Kiangan	Poblacion	0906-132-1932

V. BANK WEBSITE

<http://bancolagawe.net>



LAGAWE HIGHLANDS RURAL BANK, INC.

AUDITED FINANCIAL STATEMENTS WITH AUDITOR'S OPINION

Alas Oplas & Co., CPAs

LAGAWE HIGHLANDS RURAL BANK, INC.

LAGAWE, IFUGAO – PHILIPPINES

FINANCIAL STATEMENTS

DECEMBER 31, 2025 AND 2024

Alas Oplas & Co., CPAs

7/F Philippine AXA Life Centre, 1286 Sen. Gil Puyat Avenue, Makati City Philippines 1200

Phone No.: (632) 7116-4366 | Email: aocheadoffice@alasoplas.com | www.alasoplascpas.com

Offices:

Makati Alabang Cavite Ortigas Paranaque Bulacan Isabela Nueva Ecija Bacolod Iloilo Legazpi La Union Laguna Quezon Province



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

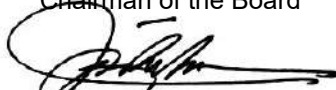
The Management of **LAGAWE HIGHLANDS RURAL BANK, INC.** (the "Bank"), is responsible for the preparation and fair presentation of financial statements including the schedules attached therein, for the years ended December 31, 2025 and 2024, in accordance with the prescribed financial reporting framework indicated therein, and 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.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders.

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2025, and 2024, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


ABUNDIO EDICIO G. DELA TORRE
Chairman of the Board
THERENCE G. BATULON
President
ROLAND B. REYES
Chief Financial Officer/Treasurer

Signed this 17th day of March, 2026.

Main Branch: Baywong Bldg., 59 J.P. Rizal Ave., Poblacion East, Lagawe, Ifugao. Mobile Nos. 09358125493/09178115481
Solano Branch: 1/F Simon Bldg., B. Aquino Ave., Quirino, Solano, Nueva Vizcaya. Telefax No. (078) 326-5320; Mobile No. 09355362807
Bambang Branch: NVAT Compound, Almaguer, Bambang, Nueva Vizcaya Mobile No. 09352658057
Banaue Branch: Ilogue, Tam-an, Banaue, Ifugao Mobile No. 09352719157
Email Address: bancolagawe@yahoo.com

Alas Oplas & Co., CPAs

INDEPENDENT AUDITORS' REPORT

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

7/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 7116-4366
Email: aocheadoffice@alasoplas.com
Website: www.alasoplascpas.com

Offices:

Makati	Alabang	Ortigas	Paranaque	Cavite
Bulacan	Isabela	Nueva Ecija	Bacolod	Iloilo
Legazpi	La Union	Laguna	Quezon Province	FCIE

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, 2025 and 2024, 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 material accounting policies and other explanatory information.

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, 2025 and 2024, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard (PFRS) Accounting 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.. As of December 31, 2025 and 2024, the Bank's total allowance on credit losses on loans and other receivables amounted to ₱22.87 million and ₱23.45 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, 2025 and 2024 have not been determined due to certain limitations.

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.

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the *Code of Ethics for Professional Accountants in the Philippines* (Code of Ethics), together with the ethical requirements that are relevant to audits of the financial statements of public interest entities 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.



Alas Oplas & Co., CPAs

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 PFRS Accounting 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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

Alas Oplas & Co., CPAs

The Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulation No. 15-2010

Our audits were 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 30 and Revenue Regulation No. 15-2010 in Note 29 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 February 19, 2025, to February 18, 2028

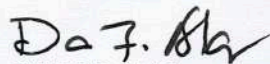
BIR A.N. 08-001026-000-2024, issued on January 5, 2024; effective until January 4, 2027

BSP A.N. (Firm) 0190-BSP, Group B, issued on August 17, 2021; valid for 2021 to 2025 audit period

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:



DANILO T. ALAS

Partner

CPA License No. 0027120

BOA Registration No. 0190/P-001, valid from February 19, 2025, to February 18, 2028

BIR A.N. 08-001026-001-2024, issued on January 5, 2024; effective until January 4, 2027

BSP A.N. (Individual) 27120-BSP, Group B, issued on August 17, 2021; valid for 2021 to 2025 audit period

SEC A.N. (Individual) 27120-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period

TIN 132-466-021-000

PTR No. 10767234, issued on January 5, 2026, Makati City

March 17, 2026

Makati City, Philippines

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
ASSETS			
Cash and other cash items	8	33,334,131	40,249,341
Due from Bangko Sentral ng Pilipinas	8	999,393	1,159,463
Due from other banks	8	119,223,671	136,640,838
Loans and other receivables – net	9	697,540,872	620,576,409
Bank premises, furniture, fixtures and equipment – net	10	59,809,158	48,764,301
Investment properties – net	11	29,436,994	19,147,616
Deferred tax assets	22	6,718,843	6,047,709
Other assets	12	18,463,459	17,568,384
TOTAL ASSETS		965,526,521	888,162,881
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	13	640,697,838	580,163,235
Bills payable	14	146,997,036	141,934,882
Accrued interest, taxes and other expenses payable	15	12,648,021	10,697,870
Retirement benefit obligation	24	8,990,171	6,590,171
Income tax payable	–	–	1,343,516
Other liabilities	16	42,154,397	38,199,121
Total Liabilities		851,487,463	778,928,795
EQUITY			
Common stock	17	70,000,000	69,240,830
Surplus free	18	44,039,058	39,993,236
Total Equity		114,039,058	109,234,066
TOTAL LIABILITIES AND EQUITY		965,526,521	888,162,881

See Notes to Financial Statements.

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
INTEREST INCOME			
Due from other banks	8	1,942,621	1,532,590
Loans and other receivables	9	102,732,042	80,386,436
Other investments	12	12,497	209,431
		104,687,160	82,128,457
INTEREST EXPENSE			
Deposit liabilities	13	(17,116,320)	(12,002,451)
Bills payable	14	(10,465,254)	(8,857,612)
		(27,582,574)	(20,860,063)
NET INTEREST INCOME		77,104,586	61,268,394
OTHER INCOME	19	15,664,313	18,716,418
TOTAL OPERATING INCOME		92,768,899	79,984,812
OPERATING EXPENSES	20	(60,387,684)	(57,082,559)
NET OPERATING INCOME BEFORE PROVISION		32,381,215	22,902,253
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	21	(11,724,551)	(1,347,553)
PROFIT BEFORE TAX		20,656,664	21,554,700
INCOME TAX EXPENSE	22	(5,110,842)	(5,337,085)
PROFIT		15,545,822	16,217,615
OTHER COMPREHENSIVE INCOME		—	—
TOTAL COMPREHENSIVE INCOME		15,545,822	16,217,615

See Notes to Financial Statements.

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Common Stock (Note 17)	Surplus Free (Note 18)	Total
Balance at December 31, 2023	63,368,150	34,275,621	97,643,771
Transactions with owners:			
Issuance of shares	5,872,680	–	5,872,680
Cash dividends	–	(10,500,000)	(10,500,000)
Total transactions with owners	5,872,680	(10,500,000)	(4,627,320)
Comprehensive income:			
Profit	–	16,217,615	16,217,615
Balance at December 31, 2024	69,240,830	39,993,236	109,234,066
Transactions with owners:			
Issuance of shares	759,170	–	759,170
Cash dividends	–	(11,500,000)	(11,500,000)
Total transactions with owners	759,170	(11,500,000)	(10,740,830)
Comprehensive income:			
Profit	–	15,545,822	15,545,822
Balance at December 31, 2025	70,000,000	44,039,058	114,039,058

LAGAWE HIGHLANDS RURAL BANK, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024
In Philippine Peso

	Notes	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		20,656,664	21,554,700
Adjustments for:			
Interest income	8, 9	(1,942,621)	(1,532,590)
Interest expense on lease liabilities	13, 24	12,021,711	11,632,131
Gain on derecognition of non-financial assets	10	(9,174,667)	(2,385,407)
Loss on assets written off	20	637,490	467,680
Depreciation	10	14,344,640	14,001,849
Amortization of gain on investment in lease	11	11,724,841	1,604,184
Retirement benefit obligation	24, 26	1,860,096	2,400,596
Operating cash flows before working capital changes		50,128,154	47,743,143
Decrease (increase) in operating assets:			
Loans and other receivables		(134,663,325)	(143,275,466)
Other assets		(18,620)	(30,455)
Increase (decrease) in operating liabilities:			
Deposit liabilities		56,334,003	188,336,657
Other liabilities		4,231,613	3,021,654
Cash generated from operations		(24,988,175)	72,795,533
Interest received		2,351,683	2,015,483
Interest paid		(12,003,156)	(11,966,984)
Net cash generated from (used in) operating activities		(34,639,648)	62,844,032
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture, fixtures and equipment	10	(17,478,872)	(3,653,276)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	–	3,450
Proceeds from sale of investment properties	11	6,400,000	1,000,787
Net cash used in investing activities		(11,078,872)	(2,648,039)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans payable	14	77,224,586	30,576,805
Payment of loans payable	14	(72,024,848)	(58,587,381)
Payment of lease liabilities – principal and interest	13	(4,927,121)	(3,097,227)
Dividends paid	18	(11,500,000)	(10,500,000)
Issuance of common stock	17, 18	759,170	5,872,680
Net cash used in financing activities		(10,488,213)	(35,735,123)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(56,186,733)	24,460,870
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
Cash and other cash items	8	40,249,341	15,788,471
Due from Bangko Sentral ng Pilipinas	8	1,159,463	1,159,463
Total cash and cash equivalents		41,408,804	16,947,934
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items	8	33,334,131	40,249,341
Due from Bangko Sentral ng Pilipinas	8	999,393	1,159,463
Total cash and cash equivalents		34,333,524	41,408,804

See Notes to Financial Statements.

BREAKDOWN OF CAPITAL COMPONENTS
(from AFS balances as of December 31, 2025)

Description	Amount
Tier 1	
Paid-up Capital	70,000,000.00
Surplus Reserve	-
Deposits for Common Stock Subscription	-
Retained Earnings	28,493,236.00
Undivided Profits	15,545,822.00
Total Tier 1	114,039,058.00
Deductions from Tier 1 Capital	-
Deferred Tax Asset, Net of Deferred Tax Liability	6,718,843.00
Net Tier 1 Capital	107,320,215.00
Tier 2	
Perpetual and Cumulative Preferred stock Treasury Shares	-
General Loan Loss Provisions	6,057,395.00
Total Tier 2	6,057,395.00
Deductions from Tier 2 Capital	-
Perpetual and Cumulative Preferred stock Treasury Shares	-
Net Tier 2 Capital	6,057,395.00
Net Tier 1 Capital	107,320,215.00
Net Tier 2 Capital	6,057,395.00
Total Qualifying Capital	113,377,610.00
Total CAR Ratio	14.68%
Tier 1 CAR Ratio	13.95%