



Financial Inclusion for Sustainable Banking

ANNUAL REPORT



LEGAZPI SAVINGS
a subsidiary of ROBINSONSBANK
A Commercial Bank

738 Building, Rizal St. Old Albay District, Legazpi City



www.legazpibank.com.ph



Legazpi Savings Bank



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PRESIDENT'S MESSAGE



2019 was a fruitful year for Legazpi Savings Bank as it focused on achieving its goal of growing its loan portfolio in particular, loans to Teachers via DepEd's APDS, Microfinance, as well as auto and housing loans in the Bicol Region.

In line with the strategy of LSB to focus on highly retail loans, the Bank, during the first quarter of the year made two portfolio purchases from Robinson's Bank. In January, LSB purchased the microfinance loan portfolio of Php 126.7Mn and in March, the jewelry portfolio of Php 24Mn. These purchases transformed the former Rbank Community Banking Offices into LSB kiosks. These also paved the way for expansion outside the Bicol Region.

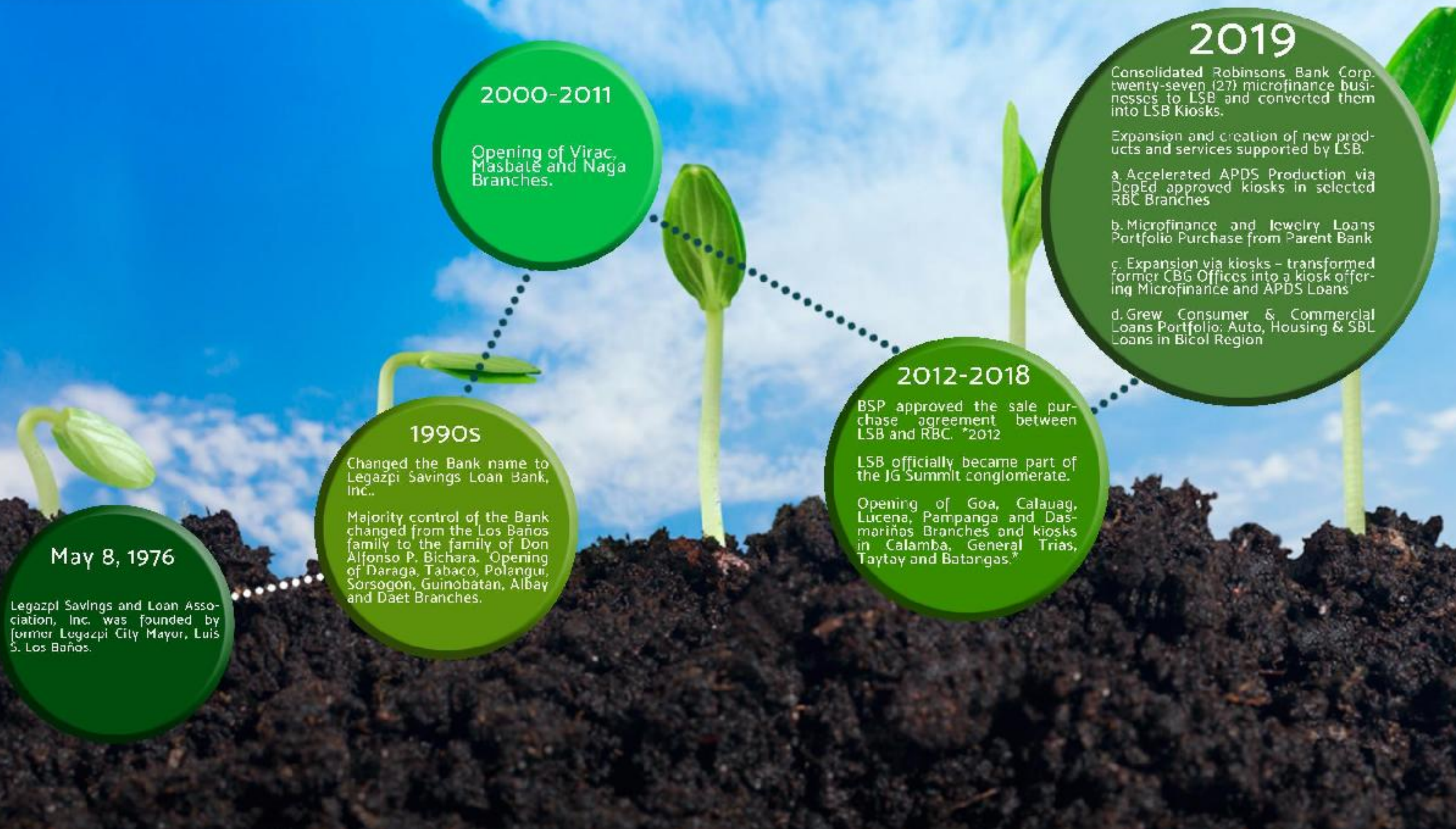
With the increased volume of transactions, the need to have a more secure and reliable system was already apparent. Thus, before the year ended, the Bank migrated to a new cloud-based core banking system. Inherent in any system migration, the Bank also encountered some challenges. This move, however, brought the Bank closer to realizing its digital banking aspirations.

The geographical location of the Bicol Region where majority of the Bank's business offices are situated, is one of the Bank's major challenges. Being on the east side facing the Pacific Ocean, it is perennially hit by typhoons especially during the last quarter of every year. The year 2019 was no exception as we are hit by typhoon Tisoy. This causes disruption to our business activities and to our clients' as well. Nonetheless, due to the collaborative efforts of the different units and the close supervision and monitoring of the Management and the Board, the Bank's past due loans are contained. In fact, past due levels are on a downward trend. LSB has always been resilient to rise above any situation, to be true to its commitment of acting as a catalyst for economic development and helping its clients uplift their standard of living.

The year 2019 ended with a bang as LSB made a solid increase in net income while loans and receivables increased by 54% and deposit liabilities increased by 23%. The Bank's Net Interest Margin for 2019 was also a healthy 11.71% way above the industry average of 5.45%.

Mykel D. Abad

MILESTONE



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Mission & Philosophy

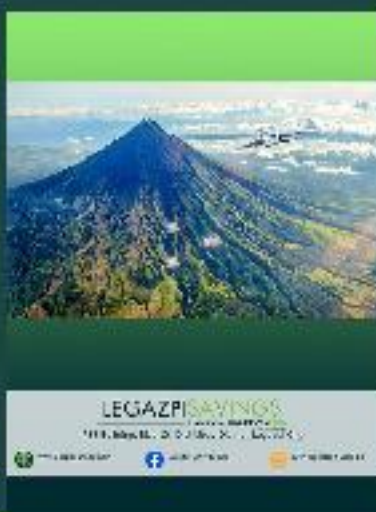
Legazpi Savings Bank...

A friendly financial institution founded on trust and confidence of the people of the Bicol Region, with the firm belief in Divine Providence and the value of Human Material Resources, providing competitive products and services, assuring stakeholders with stable and secure growth acting as partner and catalyst of economic and social development, uplifting the region's standard of living and contributing to the economic, political and social stability and progress of the region and the nation as a whole.

ABOUT THE COVER

As the Bank goes digital, one of its development goals is to provide the present need without settling on the future's ability. It gives emphasis of the significant role of financial literacy as a big factor in ensuring global economic development and sustainable development of the nation.

Guided by its Mission and Philosophy, the bank will continue to be robust, agile and leave a mark* on the banking industry.



BUSINESS MODEL/BRAND



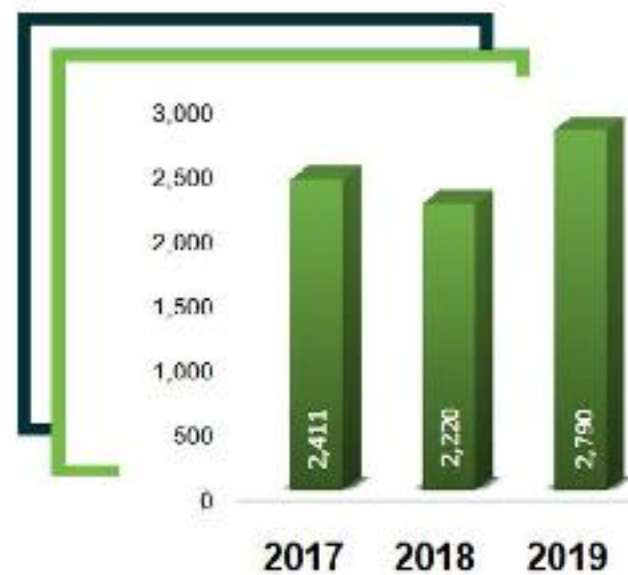
Legazpi Savings Bank, in its goal to grow consumer lending and expand its reach all over the Philippines made significant moves in 2019. The following were the strategic thrusts done to support the viability of the business: (1) It purchased the microfinance and jewelry portfolio from the parent bank. (2) It accelerated APDS production from the time the Bank was re-accredited in 2018. (3) It offered Auto, Housing and Small Business Loans. (4) As part of the expansion program, it opened kiosks within RBank branches offering microfinance and APDS products.

With the increasing volume of activities, the Bank will take on the following initiatives in 2020: (1) Transform the Bank into a selling organization for both the loans and deposit products. (2) Expand further its network reach by establishing more kiosks & opening branch lites as its regional hub (3) Embark into digital products and services using mobile and internet platforms.

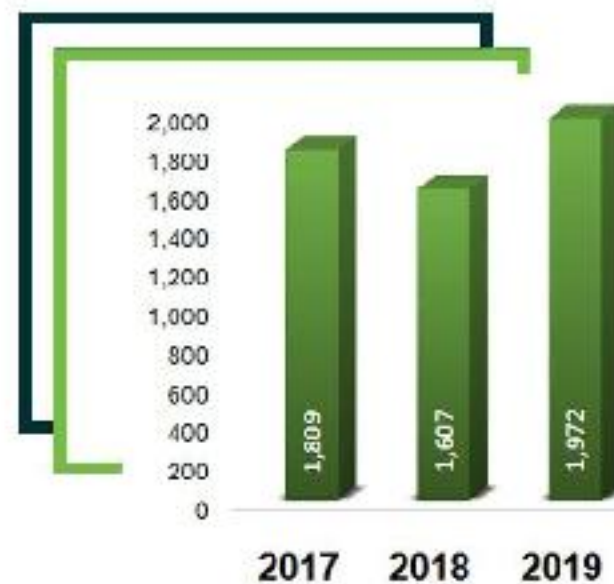
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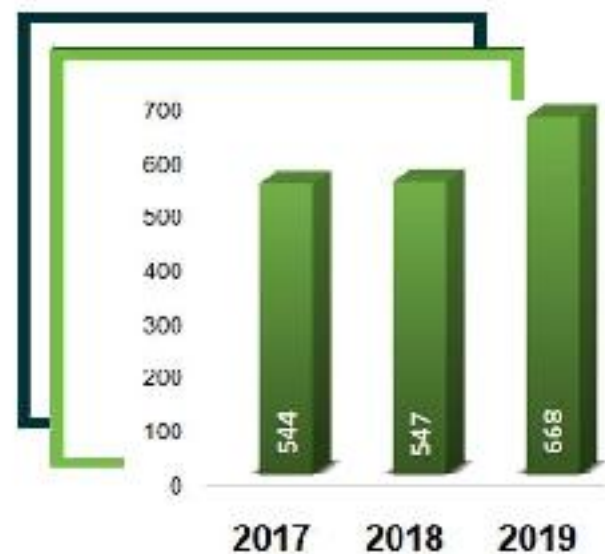
FINANCIAL HIGHLIGHTS



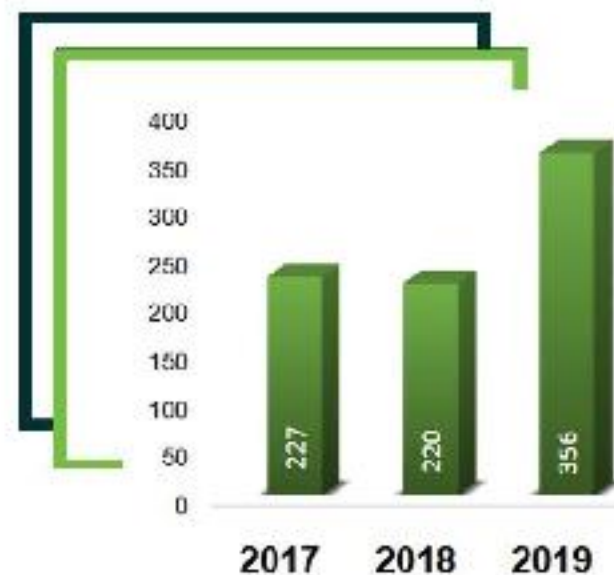
TOTAL ASSETS
(In Php Millions)



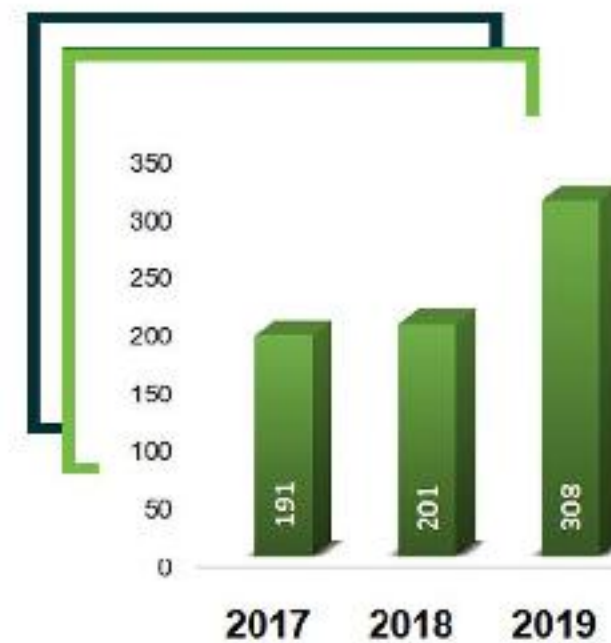
DEPOSIT LEVELS
(In Php Millions)



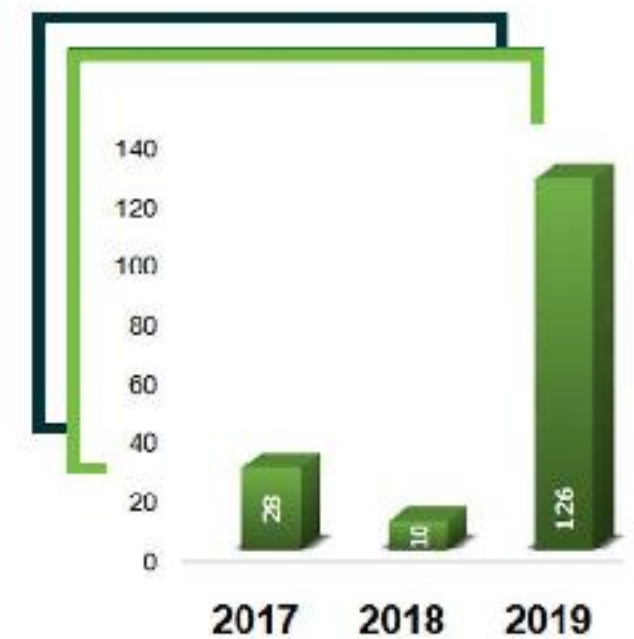
CAPITAL FUNDS
(In Php Millions)



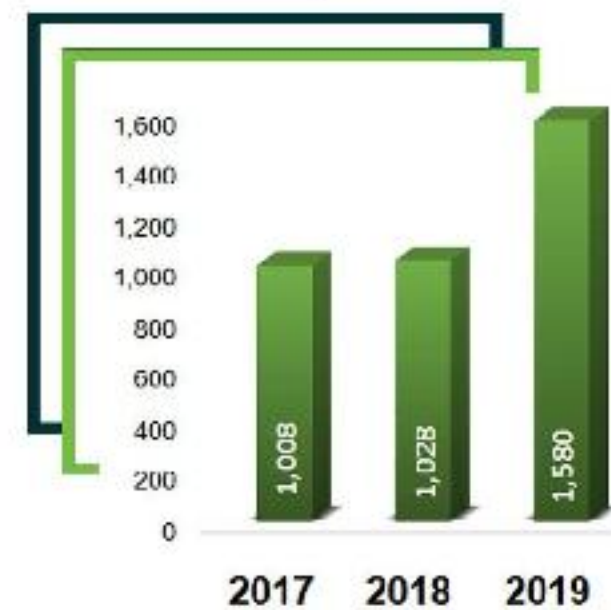
GROSS INCOME
(In Php Millions)



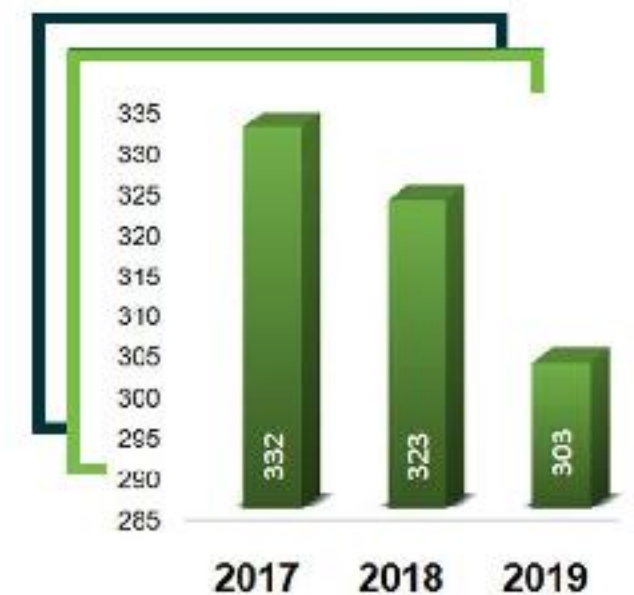
OPERATING EXPENSES
(In Php Millions)



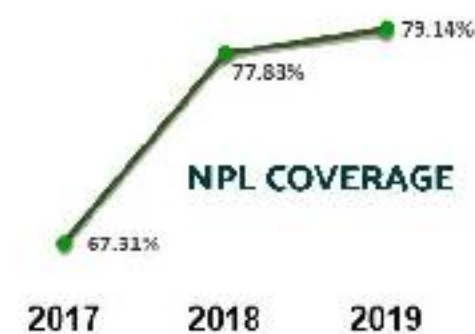
NET INCOME
(In Php Millions)



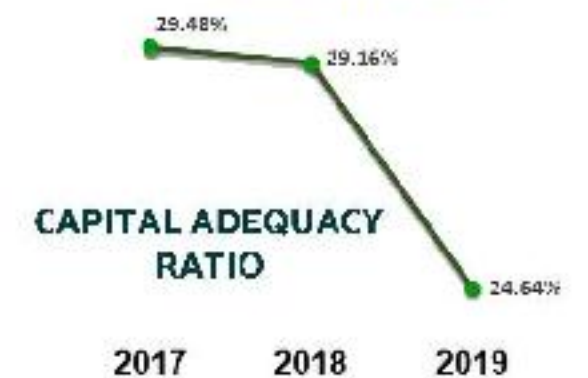
LOAN PORTFOLIO
(In Php Millions)



NON PERFORMING LOANS
(In Php Millions)



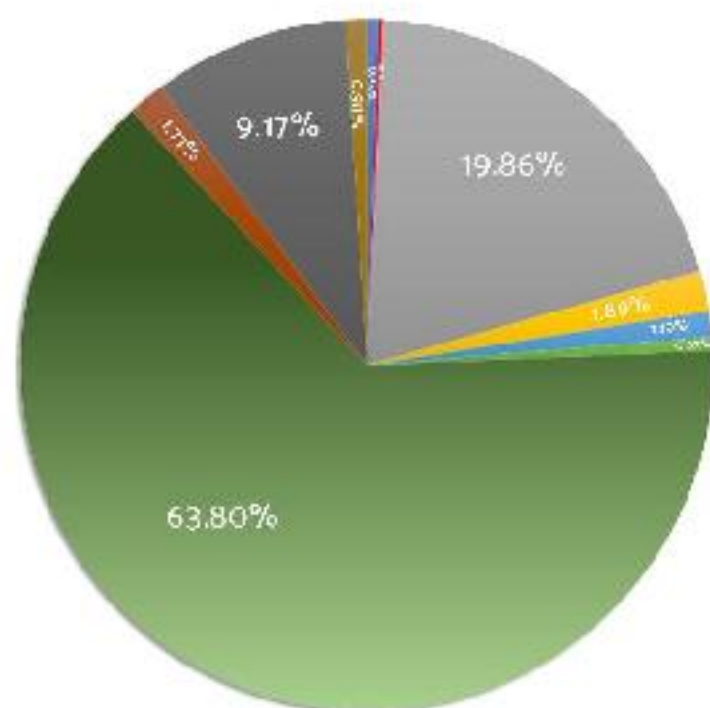
NPL COVERAGE



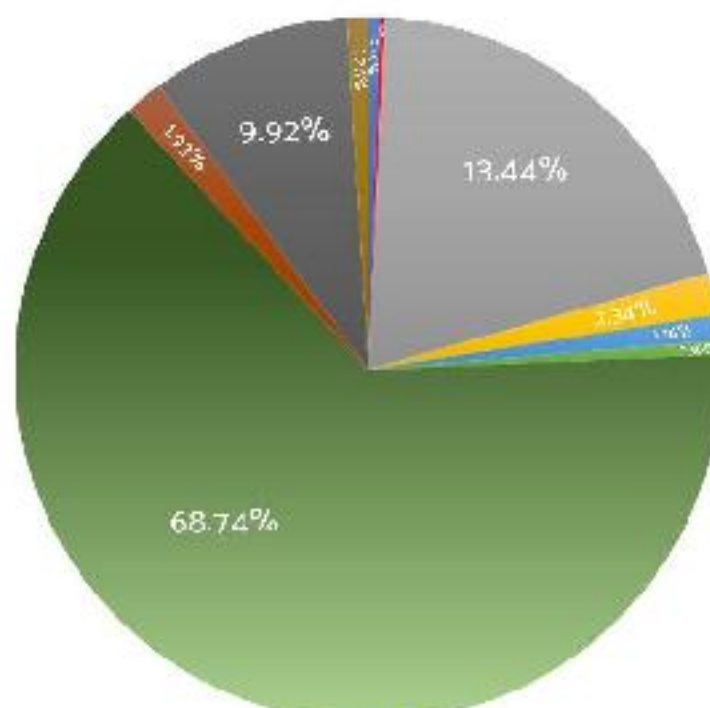
CAPITAL ADEQUACY RATIO

FINANCIAL HIGHLIGHTS

LOAN CONCENTRATION PER INDUSTRY



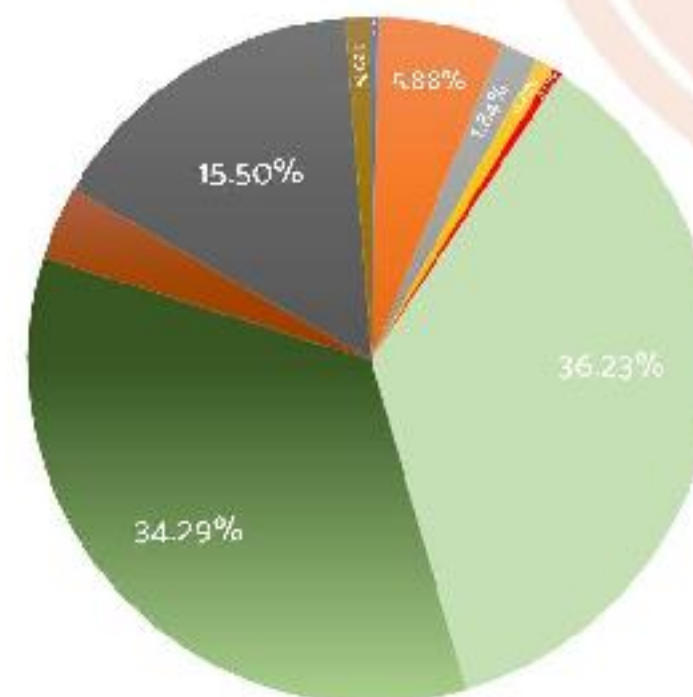
2017



2018

- Accommodation and Food Service Activities (P6,685,283.00)
- Activities Private Households as Employers and Undifferentiated Goods-and-services-Producing Activities of Households for Own Use (P2,160,654.00)
- Agriculture, Forestry and Fishing (P238,811,144.00)
- Construction (P22,687,638.00)
- Education (P14,297,246.00)
- Manufacturing (P8,016,767.00)
- Other Services Activities (P161,131,369.00)
- Real Estate Activities (P20,543,714.00)
- Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles (P110,265,726.00)
- OTHERS (P11,832,504.00)

- Accommodation and Food Service Activities (P5,116,179.00)
- Activities Private Households as Employers and Undifferentiated Goods-and-services-Producing Activities of Households for Own Use (P2,094,637.00)
- Agriculture, Forestry and Fishing (P168,746,400.00)
- Construction (P129,230,997.00)
- Education (P14,512,052.00)
- Manufacturing (P1,798,665.00)
- Other Services Activities (P860,498,764.00)
- Real Estate Activities (P24,150,661.00)
- Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles (P24,131,791.00)
- OTHERS (P15,730,888.00)



2019

- Accommodation and Food Service Activities (P5,959,865.00)
- Activities Private Households as Employers and Undifferentiated Goods-and-services-Producing Activities of Households for Own Use (P103,743,489.00)
- Agriculture, Forestry and Fishing (P32,536,244.00)
- Construction (P14,683,298.00)
- Education (P14,683,298.00)
- Manufacturing (P1,666,565.00)
- Activities Private Households as Employers and Undifferentiated Goods-and-services-Producing Activities of Households for Own Use (P639,560,614.00)
- Other Services Activities (P803,521,571.00)
- Real Estate Activities (P61,038,435.00)
- Wholesale & Retail Trade, Repair of Motor Vehicles, Motorcycles (P213,170,176.00)
- OTHERS (P21,204,244.00)



BOARD GOVERNANCE

Legazpi Savings Board of Directors ensures to continuously improve its shareholders value and achieve a successful and long-term business. The Board is actively responsible to ensure that the Bank is properly governed and managed to attain its business goals and objectives. It also has the responsibility to its customers, employees, government and the depositing public, in general.

The Board is primarily responsible for the governance, including business and risk strategy, organization, and financial soundness of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on and effective oversight of Management.

COMPOSITION OF THE BOARD

As provided in the Bank's By-Laws, the Board is composed of nine (9) members elected by the stockholders, three (3) of whom are independent. All members of the Board are Filipinos and possess all the qualifications and none of the disqualifications to become a director as prescribed under the Corporation Code and existing rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). They all passed the fit and proper test for the position of a director of the Bank taking into account their integrity and probity, physical and mental fitness, competence, relevant education, financial literacy & training, diligence and knowledge & expertise. They are known for their independence and professionalism, and make decisions with complete fidelity to the Bank and cognizant of their responsibilities under existing applicable laws, rules and regulations.

The Board determines the appropriate number of its members to ensure that the number thereof is

commensurate with the size and complexity of the Bank's operations. To the extent practicable, the members of the Board of Directors have been selected from a broad pool of qualified candidates. With this respect, the Board is composed of non executive directors (including the Chairman), executive directors and independent directors.

The Chairman of the Board holds the authority on the Board and provides leadership to the entire organization. He ensures that the Bank's duties to shareholders are being fulfilled by acting as a link between the board and management. He also ensures that the meetings of the Board are held in accordance with the by-laws, makes certain that the meeting agenda focus on the strategic matters, including the overall risk appetite of the Bank.

The Board has sufficient number of qualified non-executive directors who have been elected to promote independence of the Board from the views of the senior management. These are those who are not part of the day-to-day management of banking operations. On the other hand, elected executive directors are those who are part of senior management and involved in the day-to-day operations of the Bank.

The Board also has three (3) independent directors who are independent of Management and free from any business or other relationship which could or could reasonably be perceived, to materially interfere with their exercise of independent judgment in carrying out their responsibilities as a director. They hold no interests or relationships with the Bank that may hinder their independence from the bank or management or will interfere with the exercise of independent judgment in fulfilling their responsibilities. They comply with all the qualifications required of an independent director and none of the disqualifications as provided in the MORB.

They have maximum nine (9) years to sit as independent directors and will be barred perpetually to become as such thereafter. However, they are not precluded to sit as regular directors.

In 2019, Mr. Andro M. Yee was elected as director, vice Ms. Janette C. Gonzalvo.

BOARD MEETINGS AND CORPORATE SECRETARY

The Corporate Secretary assists the Board in its duties and responsibilities primarily to the corporation and its shareholders. In the conduct of board meetings, the Corporate Secretary provides directors the notice, agenda and meeting materials prior to each meeting. Proceedings of the meetings are properly documented and duly minuted.

As provided for in the Bank's By-laws, the Board schedules and holds regular monthly meetings and convenes special meetings, when necessary. The members of the Board attend regular and/or special meetings in person or through teleconferencing and video conferencing which allows the directors to actively participate in the deliberations on matters taken up. The Bank ensures availability of teleconferencing facilities if and when a director cannot physically attend due to unavoidable circumstances. A director may also attend the meetings by submitting written comments on the agenda to the Corporate Secretary and the Chairman prior to the meeting.

In 2019, all members of the Board have substantially complied with the attendance requirement and actively participated in the deliberations on matters taken up during the regular and/or special meetings.

BOARD MEETINGS ATTENDED

OMAR BYRON T. MIER	12/12	100%
ELFREN ANTONIO S. SARTE	11/12	92%
MYKEL T. ABAD	12/12	100%
ERIC B. SANTOS	10/12	83%
ANGELITO V. EVANGELISTA	12/12	100%
ANDRO M. YEE	9/11	82%
VICTOR V. LAYNES	12/12	100%
HERMOGENES S. ROXAS	11/12	92%
ROBERTO S. GAERLAN	12/12	100%



BOARD COMMITTEES

To allow deeper focus and increase efficiency, the Board has created committees, which are relative and consistent to the size, complexity of operations, long-term strategies and risk tolerance level of the Bank. The scope, authority and responsibilities of these committees are defined in their respective board-approved charter which is subject to regular review and updated at least annually or whenever there are significant changes.

The board has appointed the members of the committees taking into account the optimal mix of skills and experience which allow them to fully understand, be critical and objectively evaluate the issues. To promote objectivity, the Board has appointed independent directors and non-executive directors to the greatest extent possible and ensures that such mix will not impair the collective skills, experience and effectiveness of the committees. Each of these committees maintains appropriate records (e.g., minutes of meeting) of their deliberations and decisions, subject to notation and/or confirmation of the Board. The records document the committees' fulfillment of their responsibilities and facilitate the assessment of the effective performance of their functions which is regularly and periodically being conducted.

The Board has established and delegated responsibilities to the following board-level committees:

CORPORATE GOVERNANCE COMMITTEE

In order to pro-actively assist the Board in its fulfillment of its corporate governance responsibilities and ensure transparency in all of the Bank's transactions, it created the Corporate Governance Committee. The Committee ensures the Board's effectiveness and due observance of corporate governance principles, best practices and guidelines which are necessary component of what constitutes sound strategic business management. It creates awareness of corporate governance within the Bank.

In particular, the Committee oversees the development and implementation of corporate governance principles and policies, reviews and evaluates the qualifications of the persons nominated to the Board as well as those nominated for election to other positions requiring appointment by the Board, decides the manner by which the Board's performance is evaluated and assists the Board in the periodic performance evaluation of the Board and its committees and executive management, and oversees the development and implementation of professional development programs for directors and officers.

The Committee is composed of five (5) members, three (3) of whom are independent directors including the Chairperson and Vice-Chairperson. The Committee holds regular meetings and may call for special meetings as deemed necessary. To properly evaluate its performance, the Committee meetings are properly and duly minuted.



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Risk Oversight Committee

To aid the Board to efficiently carry out its functions on risk management, it created the Risk Oversight Committee which oversees the development and oversight of the Bank's risk management program and ensures an acceptable level of risk while minimizing losses. The Committee oversees the system of limits to discretionary authority that the Board delegates to management, supervises the system and ensures its effectiveness, provides and set limits and ensures that these are properly observed and that immediate corrective actions are taken should breaches occur.

The Board has appointed (five) 5 members of the Committee who possess a broad-range of expertise as well as adequate knowledge of the Bank's risk exposures which enable them to develop appropriate strategies for preventing losses when they occur. The committee members meet regularly and may call for special meetings whenever necessary.





Audit Committee

The Board has constituted an Audit Committee to provide oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. In particular, the Committee aids the Board in monitoring and evaluating the adequacy, effectiveness and efficiency of the Bank's internal control system. Further, the Committee assists the Board in fulfilling its oversight responsibilities with regard to the integrity of the Bank's financial reporting process, the independence and performance of the Bank's external and internal auditors, the compliance of corporate governance policies and guidelines, and the Bank's compliance with regulatory requirements.

To carry-out its mandate, the Committee has explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

As prescribed under existing rules and regulations, the Committee is composed of, to the greatest extent possible, sufficient number of independent and non-executive board members. All members of the Committee, including the Chairperson who is an independent director (ID), possess the required qualifications and none of the disqualifications. The Committee holds regular meetings and may call special meetings upon the request of the Chairperson or by at least two (2) of its members, which proceedings are duly minuted.

AUDIT COMMITTEE MEETINGS ATTENDED

OMAR BYRON T. MIER



ANGELITO V. EVANGELISTA



VICTOR V. LAYNES



HERMOGENES S. ROXAS



ROBERTO S. GAERLAN



IT Steering Committee

In compliance with BSP regulations, the Board has created the Information Technology Steering Committee which oversees a safe, sound, controlled and efficient information technology operating environment that supports the Bank's goals and objectives. In particular, the Committee, among others: Reviews and monitors the performance of all IT projects; Reviews the Bank's current IT infrastructure, system performance, associated risks and other significant issues and events and institutes appropriate actions to achieve the desired results; Monitors and evaluates the performance of third party service providers on all information technology initiatives subject of the service contract; and Reports to the Board relevant and adequate information regarding IT performance, status of major IT projects and significant issues affecting the Bank's IT operations.

The Committee is chaired by an independent director, assisted by the Head of IT Group and executive officers of the Bank. The heads of Audit, Risk and Compliance are also invited in the regular and/or special meetings of the Committee as resource persons.

Executive Committee

The Bank's Executive Committee has been created as the highest credit approving body of the Bank after the Board. The Committee provides the necessary approvals for applications, deviations and other loan transactions. Resolutions of the Committee may be overruled only the Board.

The Executive Committee provides decisions regarding applications for critical loan accounts and deviations that require careful deliberation. Approvals made are in compliance with internal

policies and those required under existing laws, rules and regulations. Decisions made are influenced by the latest profitability and delinquency figures of an account or loan product. Credit proposals and recommendations are being routed for consideration and approval.

IT STEERING COMMITTEE MEETINGS ATTENDED

VICTOR V. LAYNES



MYKEL D. ABAD



ANGELITO V. EVANGELISTA



ROMEL D. MENIADO



ERLINDA O. DEL VILLAR



ADRIAN T. LLANA



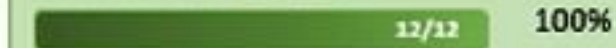
JASON DENNIS R. SAMBITAN



KAREEN R. VILLAREAL



CYNTHIA C. BAUTISTA





Credit Committee

The Credit Committee has the general responsibility of approving, granting, extending or disapproving all requests relating to all types of loan transactions and credit policy. Proposals may be granted only with the approval of the majority members of the Committee one of whom must have an authorized or delegated limit or equal or over the amount approved. The Committee also has the responsibility to recommend to the Chairman, Executive Committee or Board loan transactions which fall beyond its authority. Credit proposals are being routed for consideration and approval.

BOARD TRAININGS

In accordance with the Corporate Governance Manual and existing BSP regulations, the Corporate Governance Committee is responsible for making recommendations to the Board on the required trainings and continuing education of the directors. Relative thereto, all members of the Board have attended the required corporate governance seminar for bank directors at BSP-accredited training providers, a pre-requisite for Monetary Board confirmation. These include topics on risk and governance, audit and control, and accountability.

To remain relevant and abreast with the evolving corporate governance landscape, the directors attend refresher courses on corporate governance provided by accredited training service providers.

SELECTION PROCESS - BOARD AND SENIOR MANAGEMENT

Every year, the Bank holds stockholders meeting where new sets of board of directors are being elected. The Bank has transparent procedures in place for the nomination and election of the new sets of directors to the Board. Shareholders

nominate candidates who shall be evaluated based on qualifications and none of the disqualifications per existing BSP and SEC regulations and a pool of candidates is formed. Nine (9) will be elected from the pool of candidates.

During the organizational meeting, chairmanship and membership of the different board-level committees including principal officers are appointed.

PERFORMANCE EVALUATION

The Bank has performance evaluation process in place to assess the performance of the Board and its board-level committees based on their respective mandates. This is through a Peer Assessment Questionnaire. Similarly, the President is evaluated as a member of the Board and Senior Management, the results of which is discussed and approved by the Corporate Governance Committee and confirmed by the Board.

SELF-ASSESSMENT FUNCTIONS

Compliance System

The Bank has designed and implements a compliance system to specifically identify and mitigate business risks which may erode the franchise value of the Bank. These risks refer to conditions which may be detrimental to the Bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with the financial risks arising from the use of borrowed funds generates total corporate risk of the Bank. Thus, the system is designed and established to guide all stakeholders of the Bank in managing identified business risk events which may be detrimental to the Bank's safety and soundness.

The Board of Directors is ultimately responsible and accountable for overseeing the management of the Bank's compliance with applicable regulations and managing the risk of non-compliance with banking laws, rules and regulations while the Corporate Governance Committee assists the Board in reviewing the effectiveness of the compliance system for monitoring compliance with laws, rules and regulations. Senior Management is responsible for the effective management of business risks, identify risk events and implement actions to mitigate the same. Compliance Unit is established to assist the Board and Senior Management in managing effectively the business risks faced by the Bank and to oversee the implementation of the board-approved compliance policy. It is also responsible for the testing of general compliance of the Bank with banking laws, rules and regulations and to report any material breaches of these standards. The Chief Compliance Officer is the lead senior officer for purposes of administering the compliance program and interacting with the BSP on compliance related issues. She is also responsible to oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. All employees of the Bank are responsible to carry-out, observe or implement the board-approved compliance policy in order to manage and mitigate business risks.

Money Laundering and Terrorist Financing Prevention Program

As approved by the Board and required by the Bangko Sentral ng Pilipinas (BSP) and consistent with the Parent Bank, the Bank is implementing a program to combat money laundering and terrorist financing. The Program has been issued and regularly being updated to comply with RA No. 9160 (as amended), BSP Circular No. 706 (as amended) and other policies of the State. The Program is intended

to protect the integrity and confidentiality of the accounts of the clients, and ensure that the Bank is not used as money laundering site for the proceeds of any unlawful activities taking into consideration best practices to combat terrorist financing.

The Program has been developed to disseminate information which will help the employees understand money laundering activities and their prevention, detect and report suspicious transactions, know better the Bank's customers; understand the penalties for non-compliance; take the required AML training for responsible officers and personnel of the Bank; satisfy legal and ethical responsibilities with a minimal adverse impact on the Bank's overall daily business responsibilities and performance goals. Moreover, the Program has been promulgated to protect the Bank as well as its employee's interests.

Laws governing secrecy of bank deposits have been strictly being complied with by the Bank when implementing procedures related to combating money laundering and terrorist financing. The Program provides guidance in complying with the Anti-Money Laundering Law as well as other applicable regulations without violating relevant laws and without losing legitimate business or clients in the process.

Internal Control and Audit

The Bank has implemented its internal control processes which are designed and effected by its Board of Directors, senior management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements and the Bank's policies and procedures.



The Bank put in place adequate and effective internal control framework for the conduct of its business taking into account the size, risk profile and complexity of operations. The framework embodies management oversight and control culture, risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

The control environment of the Bank consists of: (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) Management that actively manages and operates the Bank in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management support systems; and (d) an independent audit mechanism to monitor the accuracy and effectiveness of the Bank'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.

The Bank has an internal audit system that reasonably assures the Board, Management and stockholders that the Bank's key organizational and operational controls are faithfully complied with. The Board appointed an Internal Auditor to perform the function, and required the Auditor to report to the Audit Committee, a board-level committee, which allows the internal audit activity to fulfill its mandate. The Internal Auditor is being guided by the International Standards on Professional Practice of Internal Auditing and existing laws, rules and regulations. With the Board appointment, the Chief Audit Officer (CAO) oversees the implementation of the internal audit system. Currently, the CAO has been appointed as the concurrent Head of Audit of the Parent Bank.

Remuneration Policy

The Bank's employee's compensation structure is designed to be at par with the prevailing savings banking industry rates. The compensation package is composed of guaranteed compensation, inclusive of statutory and company-initiated bonuses. Its policy is pay for performance or meritocracy, highlighted by a competitive salary scale, annual merit increase, and employee promotion which are hinged on employee performance and attainment of the Bank's Key Indicator. Competitive fringe benefit programs such as various types of leave benefits, uniform assistance, and financial assistance programs in the form of employee bereavement assistance, personal loan, motorcycle loan, car plan loan, and housing loan are provided to eligible employees aimed to assist them in their time of financial need and to improve their standard of living. The health and well-being of the employees are given importance in the form of Group Hospitalization Plan or HMO Card, the Group Life Insurance and Personal Accident Insurance and Hazard Pay.

Compensation Policy

The Board of Directors compensation is a fee or per diem in an amount as may be determined by the Board which shall be paid to each director for attendance to any meeting of the Board, subject to the approval of the stockholders; provided, however, that nothing herein contained shall be construed to preclude any directors from serving in any capacity and receiving compensation therefore. The Board, as may be delegated by the stockholder, shall fix the compensation and other remunerations. Pursuant to a delegated authority, the Board may fix the compensation and other remuneration of any Director of any other officer of the Bank should they be designated to perform executive functions or any special service to the Bank. In no case shall the total yearly compensation of directors, as such directors, exceed ten percent (10%) of

the net income before income tax of the Bank during the preceding year.

The Bank's Senior Management and Key Executive remuneration program encourage the attraction and retention of high caliber professionals possessing the required experience and capabilities to drive the success of the business. The compensation structure is designed to be at par with the prevailing savings banking industry rates. Consistent with the Bank's principle of pay for performance or meritocracy and Remuneration Policy, the Board-approved compensation and BSP approved fringe benefit program consists of car plan, various types of leave benefits, allowances, and financial assistance in the form of employee loans, are provided to Rank and File, Junior Officer, Senior Management and Key Executives. The health and well-being of all regular Rank and File employees up to Senior Management and Executives are likewise given importance as their Group Hospitalization Plan/HMO provides for extensive Executive Check-up Packages.

Granting of compensation agreements/offers, recommendations for annual merit increases, and promotion increases, variable bonuses are approved by the Chairman of the Board.

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Granting of compensation agreements/offers, recommendations for annual merit increases, and promotion increases, variable bonuses are approved by the Chairman of the Board.

Retirement & Succession Policy

Except for independent directors who are subject

to maximum term limit to remain so, directors may remain on the Board for as long as he/she remains to be physically and mentally fit and proper for the position of director, able to discharge his duties pursuant to regulatory requirements for banks. For succession, replacement, or vacancy, the Bank's By-Laws provides that vacancies in the Board may be filled by appointment or election of the remaining directors, if still constituting a quorum; otherwise, the stockholders shall fill such vacancy in a regular or special meeting called for this purpose.

Members of the Senior Management are covered by the Bank's Multi-Employer Retirement Plan under its parent company JG Summit; it is a non-contributory defined benefit plan covering all regular and permanent employees of the conglomerate. The Retirement Plan covers early or optional retirement, compulsory retirement as well as resignation payment schemes for qualified employees based on set criteria.

The Bank has a Succession Management Program for Senior Management whereby high potential candidates from critical functions were identified by the incumbent officers and, in coordination with the Human Resources Management Department, came up with an Individual Development Plan thru JGS Advancement Planning Process to prepare such candidate to take on the critical positions in case of vacancies. The development plan is updated annually.



OTHER GOVERNANCE POLICIES

Corporate Governance Manual

Consistent with the Parent Bank, the Board adopted a corporate governance framework or the Corporate Governance Manual (or "Manual") that embodies the rules, systems and processes in the Bank. The framework governs the performance of the Board and Management of their respective duties and responsibilities to stockholders and other stakeholders. The Manual is being periodically reviewed with the objective of continually aligning the Bank's policies with the BSP and SEC circulars or issuances on corporate governance including best practices issued by the Basel Committee on Banking Supervision. This ensures that the interests of stockholders and other stakeholders are always taken into account, the directors, officers, and employees are aware of their responsibilities and the business of the Bank is conducted in a safe and sound manner.

Code of Conduct

Similar to the Parent Bank, the Code of Conduct for Employees exists to develop or pattern behavior according to the Bank's standards, to ensure professional conduct, and to enforce discipline and order. The Code is implemented by the Human Resources and Management Unit. Copies of the Code of Conduct are given to employees upon hiring, while seminars are conducted regularly and regular issuances of advisories in order to further expound on the subject.

Whistle-Blowing Policy

Consistent with the Parent Bank, all employees of the Bank are encouraged and should impose upon themselves to perform the duty of disclosing to their immediate superior the existing or potential violations and wrongdoings that they are or may become aware of. The Bank's Policy on Timely Reporting of Concerns and Incidents, otherwise known as the Whistle-Blowing Policy, serves as a guide for all employees for reporting matters that breach integrity.

Dividend Policy

Pursuant to the Bank's by-laws and subject to resolution of the Board, the Bank may declare dividends annually provided the Bank has unrestricted retained earnings or surplus. However, to date, the Bank has not declared any dividends in accordance with existing laws, rules and regulations.

Related Party Transactions

In compliance with BSP Circular 895, as amended, all material related party transactions are being approved by the Bank's Board of Directors. With this respect, the Bank did not create a separate RPT Committee. Nevertheless, it has RPT policy which defines related parties which include directors, officers, stockholders or related interests (DOSRI) of the Bank and their close family members. It also includes corresponding persons in affiliated companies, subsidiaries and affiliates, any party that the Bank exerts control over or that exerts control over the Bank, and such other entity whose interest may pose potential conflict with the interest of the Bank.

The Board evaluates material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties that similar transactions with

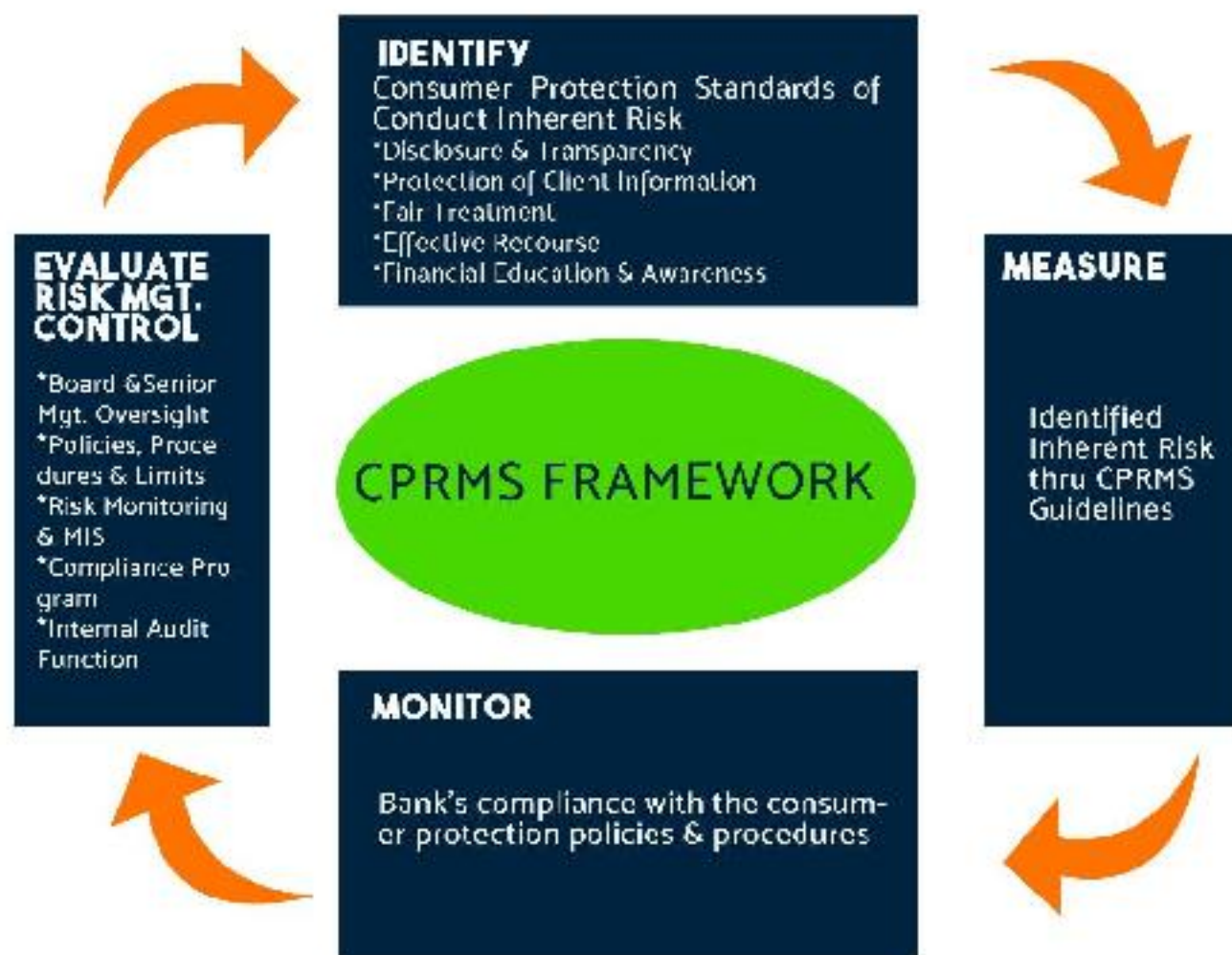
non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. Refer to the Notes to Financial Statements for the Bank's related party transactions.

programs in the form of employee bereavement assistance, personal loan, motorcycle loan, car plan loan, and housing loan are provided to eligible employees aimed to assist them in their time of financial need and to improve their standard of living. The health and well-being of the employees are given importance in the form of Group Hospitalization Plan or HMO Card, the Group Life Insurance and Personal Accident Insurance and Hazard Pay.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)

Pursuant to BSP Circular 857 entitled BSP Regulations on Financial Consumer Protection, Legazpi Savings Bank provides financial consumer protection in accordance with the said BSP Circular. The BSP Framework identifies five consumer protection standards which Banks must observe at all times; Disclosure and Transparency; Fair Treatment; Protection of Clients Information; Financial Education and Awareness; and Effective Recourse. LSB established a Consumer Protection Risk Management System (CPRMS) Guidelines. There are amendments and updates made to the bank's CPRMS to define the roles and responsibilities of other business units and brief description of risk management tools, process and/or procedures.

The CPRMS Guidelines aims to identify, measure, monitor and control consumer protection risks inherent in its operations. These include both risk to the financial consumer and the Bank.



CONSUMER PROTECTION OVERSIGHT FUNCTION

The Senior Management and the Board are responsible for overseeing strategic direction and governance. They are responsible in developing the Bank's consumer protection strategies and establishing an effective management oversight over consumer protection program.

The Risk Management Unit provides foundation for ensuring that the Bank's consumer protection policies, procedures and practices address and prevent identified risk to the Bank and associated risk of financial loss to consumers.

The Compliance Unit ensures that the policies and procedures are consistent with the consumer protection policies approved by the Board and address compliance with the consumer protection laws, rules and regulations.

The Internal Audit Department provides the Senior Management and the Board with analysis, findings, and corrective actions and recommendations in meeting the consumer protection objectives.

The Human Resources Management Group is responsible for a Financial Education and Awareness Program that ensures that all relevant personnel particularly those whose roles and responsibilities have customer interface, receive specific and comprehensive training on consumer protection program of the Bank. All business units are responsible in the complete and timely reporting of all request, queries and complaints (RQCs) received from all contact points of the Bank. They ensure that all RQCs received are forwarded to the Bank's Customer Care Center (C3) Unit.

Consumer Assistance Management is handled by the RBG that provides timely and efficient means for resolving complains with Bank's financial transaction. Digitization has opened pathways for Legazpi Savings Bank to build relationships to its customer in order to serve them better. The Bank received inquiries, requests, feedbacks and complaints from customers regarding its products and services through digital platforms. Various communication channels through the Customer Care Center (C3) such as the hotline, email feedback forms, website, social media, etc. are made available to clients so they can easily contact the Bank regarding these concerns.



MONITORS
Daily inquiries, requests, and complaints received from customers and reported to the management. Provide solutions on the Bank's products and services promptly and efficiently.

MANAGES
The issues received from customers through the different channels, coordinate with concerned units and respond to clients in efficient and professional manner within the committed time frame to ensure customer satisfaction.

RECORDS
Issues raised by employees regarding concerns within the Bank and responding for resolution. Reports are included in the concerned unit's performance evaluation.

CORPORATE SOCIAL RESPONSIBILITY

Yes indeed, it is a big opportunity for us to be a member of LEGAZPI SAVINGS BANK family! From 2007 to present, LSB is an honest and truthful buddy in business... an alliance of excellent performance of managers, staff and personnel. From the bottom of our heart, me and my family sincerely thank you... the opening of your door lead us to our brighter future, thank you for trusting us... thank you for making us BIG! THANK YOU LSB, MORE POWER!!!



Coming from a family of nine (9) siblings, and formerly a resident of Ilawod, Camalig, Albay, Merle N. Oarde being the eldest strived hard to fulfill her dream of becoming a teacher. This came into a reality when she passed the 1992 Licensure Examinations for Teachers and became a DepEd teacher on the following year.

She got married in 1993 and blessed with two (2) children. Their eldest is a Medical Technologist and currently studying in Bicol University College of Medicine. Their youngest is a graduate of Hospitality Management Major in Culinary Arts.

They planned to start a business after marriage. It was in the year 2000 when they reached the peak of their business after experiencing ups and downs with the same. On November 30, 2006, Typhoon Reming hit the country which caused complete adversity in their business and residence as well.

They decided to move in Guinobatan, Albay and put up a bakery in 2007. In the same year, they had loan application from different banks in the Municipality of Guinobatan but it was only Legazpi Savings Bank, Inc. (LSB) – Guinobatan Branch under the command of Mr. Adrian T. Llana that took a risk to process and granted their PHILIPPINE PESOS: SEVENTY-FIVE THOUSAND (Php 75,000.00) loan to be used for their business operations. On 2015, they availed LSB's Small Business Loan amounting to PHILIPPINE PESOS: THREE MILLION (Php 3,000,000.00) for machinery improvement of their bakery.

They already saturated the entire province of Albay, Catanduanes, Masbate, and Sorsogon; and they will open soon in Camarines Sur and Camarines Norte.

They started the business with only one (1) helper but now with the branches and satellite branches, they have more than one hundred fifty (150) employees. Each branch is under the direct supervision of her brothers and the family including their children that manages the entire business.

Their first vehicle was a motorcycle and a tricycle for bread deliveries in Camalig and Guinobatan areas only. To date, they have three (3) Hyundai H100 for goods deliveries; and one (1) SUV for family travel goals.

They are also a distributor of the URC and Unilever products.



CORPORATE SOCIAL RESPONSIBILITY

Accomplishments

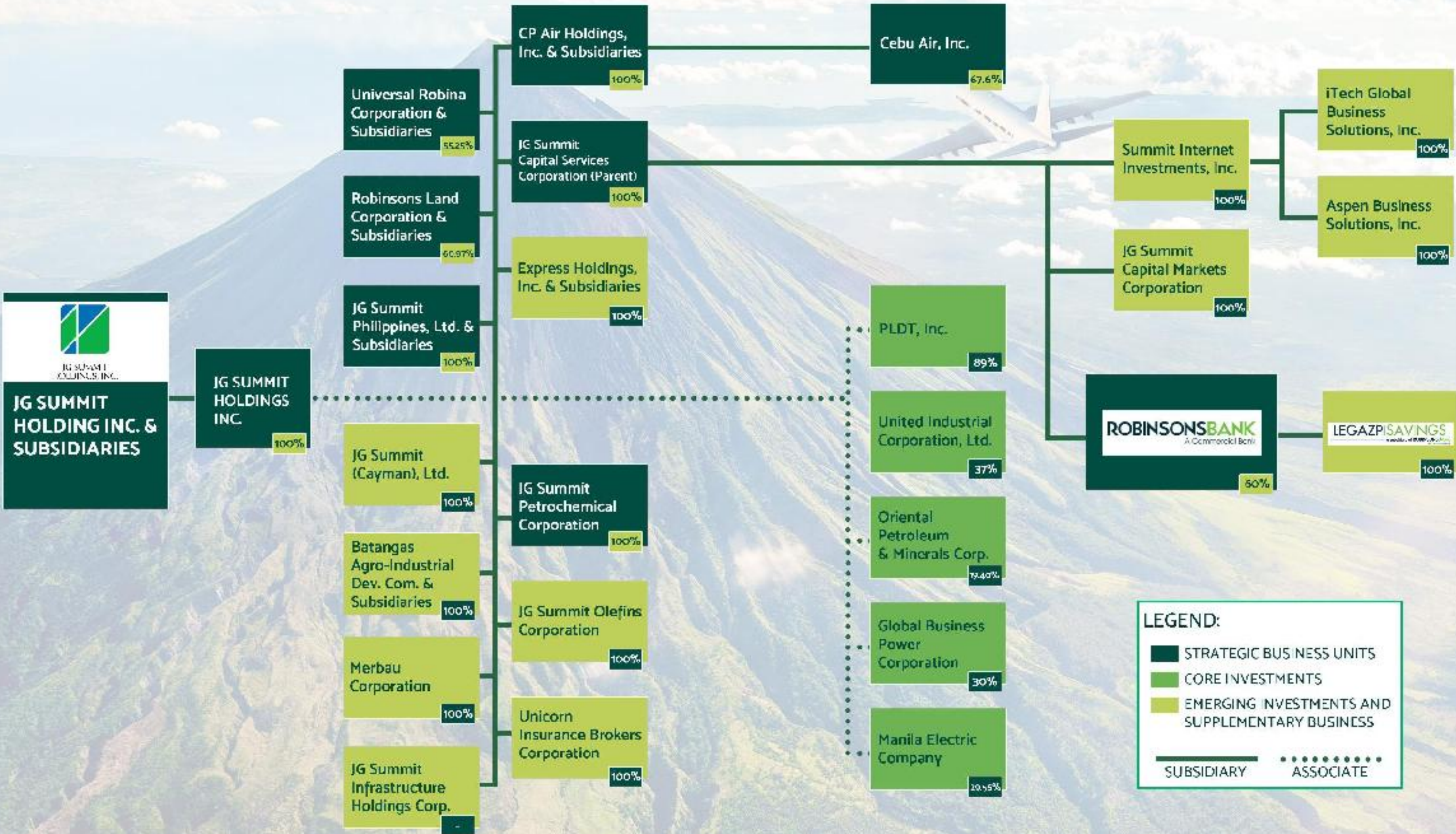
FOR THE YEAR 2019

BRIGADA ESKWELA

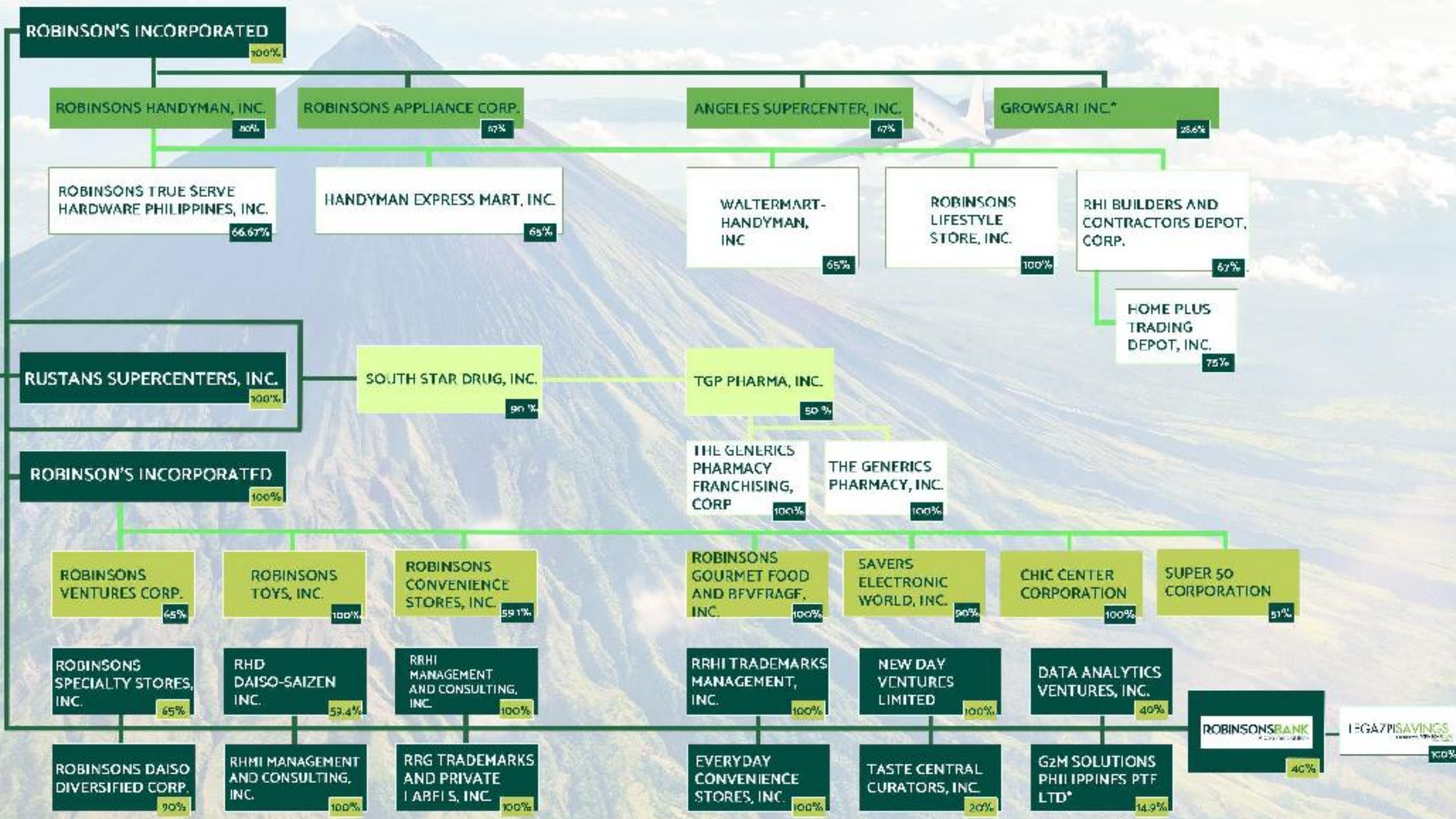
LEGAZPI SAVINGS BANK, A SUBSIDIARY OF ROBINSONS BANK TAKES PART IN THE YEARLY PROJECT OF THE DEPARTMENT OF EDUCATION (DEPED) "BRIGADA ESKWELA". VOLUNTEER EMPLOYEES DONATE THEIR TIME TO HELP CLEAN AND RE-PAINT THE CLASSROOMS, AND BEAUTIFY THE SCHOOL GROUNDS OF IDENTIFIED SCHOOLS.



CONGLOMERATE MAP
JG SUMMIT HOLDINGS INC.



CONGLOMERATE MAP
ROBINSONS RETAIL HOLDINGS INC.



Ownership Structure

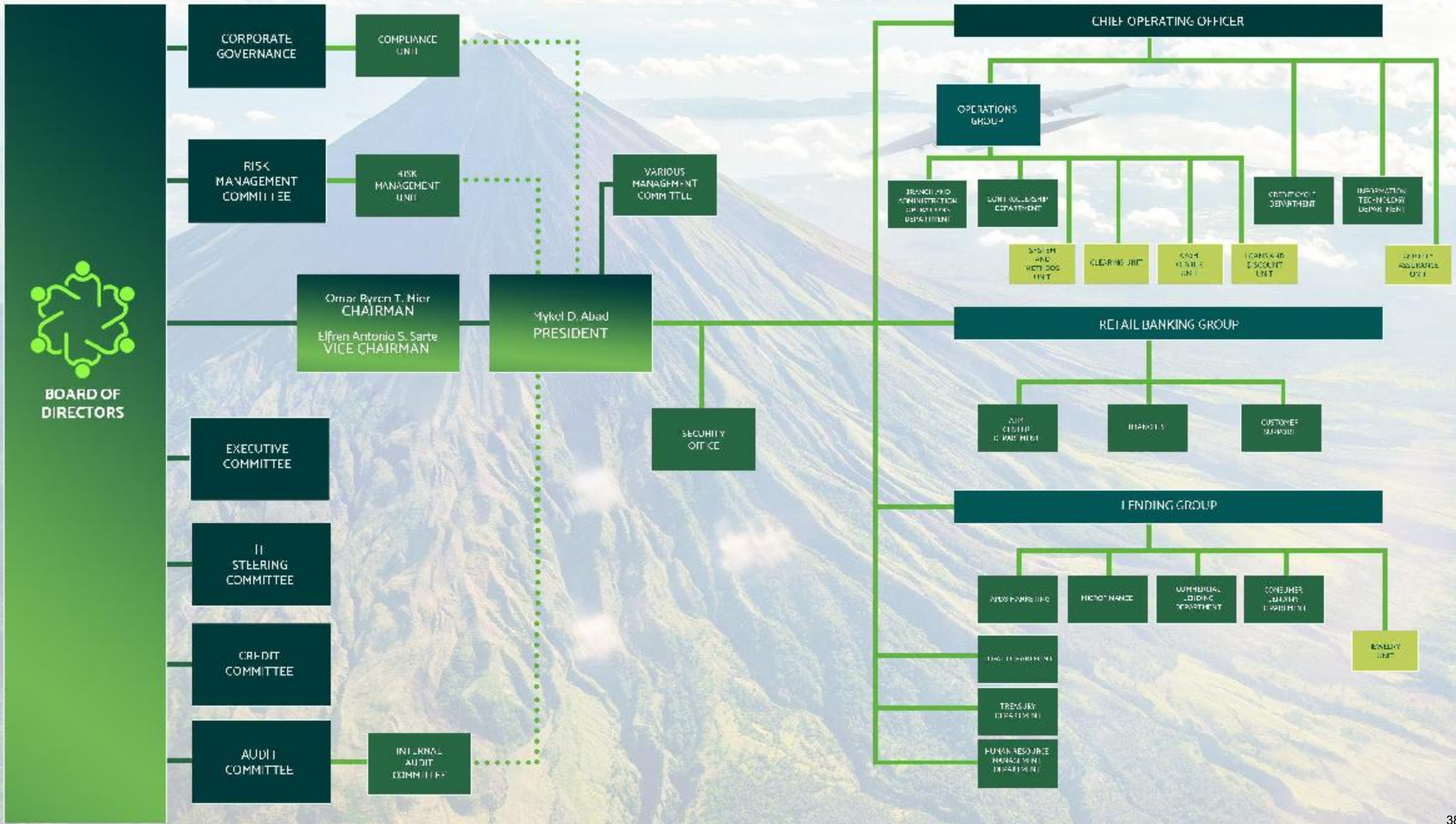
LEGAZPI SAVINGS

IS A SUBSIDIARY AND
WHOLLY OWNED BY

ROBINSONSBANK



LEGAZPI SAVINGS BANK ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS



(On this page from left to right)
MYKEL D. ABAD - **Director**, ELFREN ANTONIO S. SARTE - **Vice Chairman**, OMAR BYRON T. MIER - **Chairman**,
and ANGELITO V. EVANGELISTA - **Director**.

(On this page from left to right)
HERMOGENES S. ROXAS - **Independent Director**, ROBERTO S. GAERLAN - **Independent Director**,
ERIC B. SANTOS - **Director**, ANDRO M. YEE - **Director**, and VICTOR V. LAYNES - **Independent Director**

*All directors have nominal share of one (1) unit of the Bank's stockholdings.

BOARD OF DIRECTOR'S PROFILE



OMAR BYRON T. MIER
Chairman, Filipino, 73 years old

He is the Chairman of the Board of Directors of the Bank. He is also a member of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee. He was appointed as a Director of the Parent Bank (RBC) in 2015, and he also serves as a member of its IT Steering Committee, Risk Oversight Committee and an alternate member of its Executive Committee. He also serves as an independent director of RCBC Leasing and Finance Corporation (since 2016) and Paymaya Corp. where he also sits as the chairman and member of its Audit Committee and of its Risk and Compliance Committee, respectively, since 2016. Before joining RBC, he holds around four (4) decades of experience in the banking industry, including Citibank N.A., where he served as Country Risk Manager in Manila (1983 to 1985), Public Sector Group Head (1985 to 1987), Country Risk Officer in Malaysia (1992 to 1995), Head of Risk Management Group and World Corporate Group Head (1992 to 1995); Deutsche Bank, as Deputy General Manager and Corporate Banking Head (1995 to 2002); and Philippine National Bank (2005 to 2014), where he held various senior positions the last of which as President and Chief Executive Officer (CEO). He has a Bachelor of Science degree in Business Administration Major in Accounting, Bachelor of Arts degree in Economics, and Master of Arts in Economics from University of the Philippines. He is also a Certified Public Accountant. He has been in the service for four (4) years.



ELFREN ANTONIO S. SARATE
Vice Chairman, Filipino, 60 years old

He is the Vice Chairman of the Board of Directors of the Bank, a Resource Person of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee; and a Chairman of its Executive Committee. He is the President and CEO of RBC and is a member of its Executive Committee, Risk Management Committee, and IT Steering Committee. He is a director of Bankers Association of the Philippines and the Chairman of its Operations Committee. He is also the Chairman of the Board of Directors of Philippine Clearing House Corporation. Prior to joining the Bank in November 2014, he was the President, Director and CEO of Allied Savings Bank (2013 to 2014); Consumer Finance Group Head (2013) and Head of Consumer Credit and Collection Division (2010 to 2013) of Philippine National Bank; and Head of Consumer Credit Risk Management Division (2006 to 2010), Credit Services Division (1996 to 2006) and Credit Investigation and Appraisal Division (1995 to 1996) of Union Bank of the Philippines. He was also a Manager at the Credit Information Bureau (1983 to 1985). He has a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering from the De La Salle University. He has been in the service for five (5) years.



MYKEL D. ABAD
President/Director, Filipino, 51 years old

He is the President and Director of the Board of Directors of the Bank; a member of its Executive Committee and IT Steering Committee; and Chairman of its Credit Committee. He is the Executive Vice President of RBC. Prior to becoming LSB's President, he has held senior management positions in UCPB, International Bank Exchange, and Robinsons Savings Bank. He finished his Bachelor of Science degree in Statistics from the University of the Philippines and he has a Masters degree in Applied Business Economics from the University of Asia and the Pacific. He has attended numerous trainings abroad such as the Youth Marketing Seminar conducted in Kuala Lumpur Malaysia and ICAAP Master Class and Asset Liability Management seminars, both of which were conducted in Singapore. He also underwent extensive trainings on anti-money laundering, corporate governance, treasury operations, and risk management. He has also completed the Executive Development Program of JG Summit, conducted by visiting professors from Harvard and INSEAD among others. He has been in the service for six (6) years.

BOARD OF DIRECTOR'S PROFILE



Angelito V. Evangelista
Director, Filipino, 67 years old

He is the Director of the Board of Directors of the Bank and a member of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee. He is also the Executive Vice President, and the RBC's Chief Operating Officer until September 30, 2019. Currently, he is a consultant of the RBC. He has been in the banking industry for more than forty-five (45) years. He started his career with Bank of Asia, which later became Insular Bank of Asia and America (IBAA) and has held senior management positions in PCIBANK and PCI Savings Bank. He was part of the original team that organized Robinsons Savings Bank Corporation in 1997. He was a former Independent Director of Meycauayan College and was previously a Director of Bancnet where he currently sits as Bancnet's GPSCOM adviser. He graduated from the University of the East where he earned his Bachelor of Science degree in Business Administration, Major in Accounting. He also has a Masters degree in Business Administration from the University of the Philippines Diliman. Over the years, he has attended numerous trainings and seminars conducted in the Philippines and abroad such as the AIM Debt & Prepaid Forum held in Las Vegas, Nevada, U.S.A. and the Bank Administration Institute's (BAI) Retail Delivery Conference in Boston, Massachusetts, U.S.A. among others. He is also a Certified Public Accountant. He has been in the service for six (6) years.



Andro M. Yee
Director, Filipino, 55 years old

He is the Director of Board of Directors of the Bank. He is also the Executive Vice President, and is the Bank's Chief Financial Officer of RBC. He joined RBC in 1997 and became the Bank's Compliance Officer (concurrent Chief Audit Executive) (1997-2009), Chief Audit Executive (2009-2010), and Controller (2010-2013). He also sat as a Director of Bancnet, Inc. (2009-2011). He was also the head of the Bank's Community Banking Group (2013-2016) that spearheaded RBC's effort to offer financially inclusive products (i.e., Microfinance and Motorcycle Loans) to the unbanked and underbanked sector of the society in the country. Over the years, he has had numerous trainings and seminars on anti-money laundering, compliance, corporate governance, internal auditing, trust operations and investment management, IT security, corporate fraud control, and risk based audit. He earned his Bachelor of Science degree in Business Administration, Major in Accounting, from the University of the Philippines in the Visayas. He is also a Certified Public Accountant. He has been in the service for one (1) year.



Eric B. Santos
Director, Filipino, 60 years old

Director of Legazpi Savings Bank, resource person of Risk Oversight Committee, member of Executive Committee & Credit Committee. He has been with the banking industry for over 40 years and has held senior management positions in various banks such as United Coconut Planters Bank (UCPB), UCPB Savings Bank, Planters Development Bank and Premier Development Bank prior to joining the Bank in 2012 as Chief Credit Officer. He graduated from the Polytechnic University of the Philippines (PUP) with a degree of Bachelors of Science in Accountancy. He has attended extensive trainings on corporate governance, risk management, anti-money laundering, leadership, credit, and equity and debt financing. He has been in the service for three (3) years.



Hermogenes S. Roxas
Independent Director, Filipino, 68 years old

He is the Independent Director of the Bank; Chairman of its Audit Committee; Vice Chairman of its Corporate Governance Committee, and member of its Risk Oversight Committee. He is also the Chairman of the RBC's IT Steering Committee and a Vice-Chairman of its RPT Committee. He has more than three (3) decades of experience in banking and has held various senior positions at Commercial Banking & Trust Company and United Coconut Planters Bank and its subsidiaries. He was also the President of UCPB Savings Bank, a Director at UCPB Leasing & Finance Corp., UCPB Foreign Exchange Corp., UCPB Capital Corp., UCPB Rural Bank, and UCPB Securities Inc. He has a Bachelor of Science degree in Business Administration from the University of the Philippines. He has been in the service for five (5) years.

BOARD OF DIRECTOR'S PROFILE



Victor V. Laynes

Independent Director, Filipino, 48 years old

He is the Independent Director of the Bank; Vice Chairman of its Audit Committee; member of its Corporate Governance Committee; and Chairman of Risk Oversight Committee and its IT Steering Committee. He was also the Independent Director of Vision Bank (Catanduanes) (2007 to 2009). He had banking experiences in Robinsens Savings Bank as IT Head (1997 to 2004); Senior Manager in Export and Industry Bank (1997); and held various positions in Ecutable Banking Corporation (1991 to 1997). He has a Bachelor of Science degree in Computer Science from University of the Philippines. He has been in the service for six (6) years.



Roberto S. Gaerlan

Independent Director, Filipino, 67 years old

He is the Independent Director of the Bank; member of its Audit Committee; Chairman of its Corporate Governance Committee; and Vice Chairman of its Risk Oversight Committee. He is also the Independent Director of RBC, Chairman of its Risk Oversight Committee and Vice-Chairman of its Corporate Governance Committee. His career in banking spans over three (3) decades, working with First United Bank (1973 to 1979) and with United Coconut Planters Bank (1979 to 2003) where he was the Vice President for Branch Banking (2001 to 2003). He graduated with a Bachelor of Arts degree in Economics from the University of Santo Tomas and Advanced Bank Management from the Asian Institute of Management. He has been in the service for two (2) years.

KEY OFFICERS



MYKEL D. ABAD
PRESIDENT

ROMEL D. MENIADO
CHIEF OPERATING OFFICER

MA. SOCORRO S. LIGANOR
RETAIL BANKING GROUP HEAD

ERLINDA O. DEL VILLAR
OPERATIONS HEAD

VICTOR C. DELA CRUZ, JR.
LENDING HEAD

JASON-DENNIS R. SAMBITAN
INFORMATION TECHNOLOGY
DEPARTMENT HEAD

KAREEN R. VILLAREAL
CHIEF COMPLIANCE
OFFICER

KEY OFFICERS



ROEL S. COSTUNA

CORPORATE SECRETARY
AND LEGAL UNIT HEAD

AILEEN MARY C. EJERCITO

ASST. CORPORATE
SECRETARY

EVIE B. ABRAHAM

HUMAN RESOURCE
MANAGEMENT GROUP HEAD

CYNTHIA C. BAUTISTA

CHIEF AUDIT OFFICER

RODOLFO T. QUINTO

CHIEF SECURITY OFFICER

KEY OFFICERS



ADRIAN T. LLANA
CREDIT CYCLE & OPERATIONS HEAD

CARMELA MONICA C. BORROMELO
CONTROLLERSHIP HEAD

ABUNDIO B. BLANQUISCO, JR.
BRANCH AND
ADMINISTRATION OPERATIONS
DEPARTMENT HEAD

ELEANOR LENI M. ANTE
TREASURER

**TRISHA MARIE GERETTE
B. GUTTIERREZ**
OFFICER-IN-CHARGE FOR RISK
MANAGEMENT UNIT HEAD



RISK MANAGEMENT FRAMEWORK

RISK PHILOSOPHY AND CULTURE

LSB recognizes that banking is essentially a business of managing risks and that risk is an integral part of its operational activities. In line with this principle, the Bank considers risk management as value proposition endowed with the goal of realizing sustainable profitability and creating value for its shareholders while striking a balance between risk and optimum return on investment. LSB's risk management philosophy is anchored on the following:

1. Risk standards aligned with internationally-accepted principles, practices and regulations in the Bank's day-to-day administration of performance and risk management;
2. Proactive exposure management using prudent risk-taking activities which serves as its foundation for sustainable growth, sound capitalization and profitability;
3. Commitment to create a risk-awareness culture within the organization by instituting and upholding the highest standards of professionalism, work ethics and integrity among its employees, highlighting the utmost value of risk process, establishing a solid internal control framework and promoting the effective utilization of its capital investments.

The Bank's risk management practices are comprised of formal authority limits, written policies, independent checks and balances and quantitative modeling techniques. Its key significance involves visualizing the risk, battling out the adverse impact on profitability through proactive planning and making sure that risk management processes are embedded and observed in the daily operation of the Bank.

RISK APPETITE STATEMENT

"To contribute a Return on Equity acceptable to the shareholders and at par with the industry by generating earning assets, deposits and fee-based transactions, expanding Bank's reach to other regions, improving profitability and asset quality through prudent deployment of capital while consistently complying with regulatory requirements"

Notwithstanding its quest for growth and profitability, the Bank would like to maintain a CAR more than or equal to the regulatory requirement. This is to ensure that capital would still be sufficient to meet future regulatory requirements.

CREDIT RISK

Similar to the Parent Bank, LSB is also in the expansion and growth mode but not at the expense of credit or investment quality. Likewise, the primary focus of the Bank is asset growth, capital preservation and profitability. Being the subsidiary, LSB's mandate is to focus on highly retail loans mostly catering to the countryside and the market not captured by the Parent Bank. Ultimately, every loan or investment decision is driven by its culture of prudence, conservatism, active management, excellent due diligence

process, which was instilled by its Parent Bank

The Board thru the Risk Oversight Committee (ROC) is primarily responsible for the oversight of the credit risk management of the Bank. Executive and Credit committees has been delegated by the Board to evaluate and approve credit matters. Credit Cycle Unit (a) implements the pre-approval review of all loan accounts and all collection efforts for all past due account, (b) submits reports to senior management on a periodic basis, and (c) acts as an independent credit risk control unit which handles the review of credit applications. Risk Management Unit is tasked to implement and execute risk management plans as approved by the ROC.

In many aspects of its business, the Bank believes in the following:

- Lending or investing on stable and seasoned companies that are owned or managed by professionals and entrepreneurs;
- Ensuring that every loan will provide optimal return for the stakeholders;
- Preserving asset or capital through low risk, adequate collateral or securities for loan;
- Focusing on banner products such as DepEd loans and microfinance loans and exploring other consumer loans such as auto loans, housing loans, collateralized small business loans and SME Loans within its target market;
- Expanding reach through deliberate but steady organic growth of the loans and deposits; and
- Seeking for excellent opportunities for loan portfolio growth by not hesitating to take advantage of acquiring other banks or financial institutions (FI's).

The Bank's approach to credit or investment is generally straightforward, that there is no substitute for a sound credit due diligence. Loans and/or investments shall be pursued not based solely on the yield but rather on the viability and stability of a borrower's cash flows.

Finally, LSB's credit philosophy of asset growth and capital preservation and its credit culture of prudence and conservatism instituted through the strong oversight of its Parent Bank which stems from the long banking experience of its shareholders.

Credit risk arises from a counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. Credit risk is found in all activities where success depends on counterparty, issuer, or borrower performance. It arises any time bank funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on- or off-balance sheet. Credit risk is not limited to the loan portfolio.

In quantifying credit risk and capital assessment, the Bank uses the Standardized Approach in computing its exposure for credit risk. Credit Risk-Weighted Asset (CRWA) is an important risk measure of the Bank, primarily because it is used to determine the Bank's minimum capital requirement. The Bank's minimum capital requirement for credit risk is defined as 10% of the CRWA. At the end of 2019, LSB's total CRWA amounted to Php2,009Bn, with a capital charge of Php200.96Mn.



Credit Risk Mitigation, Control and Reporting

For Commercial Loan Origination, the Bank accepts collateral (REM, Chattel mortgage, guarantee) and employs mitigants and controls such as: independent credit risk control, limits (mix, NPL, concentration, etc.), ICRRS (Php15Mn and below), portfolio quality review, overall assessment of credit quality and monitoring & risk reporting.

For Consumer Loan Origination, the Bank also accepts collaterals and employs mitigants and controls such as: independent credit risk control, limits (NPL, concentration, deviation), established RAC (risk acceptance criteria), consumer loans score cards, score cards tracking, portfolio quality review and monitoring & risk reporting.

CREDIT CONCENTRATION RISK

Concentration Risk is the risk faced by the Bank when a number of counterparties are engaged in similar activities or business industries, activities in the same geographic region, or have similar economic features.

As of December 31, 2019, the Bank has a total loan portfolio of Php1,814.24Bn (inclusive of the Php69.38 Mn residential real estate loan to individual household for occupancy). Among the industries, borrowers from Personal Consumption have the biggest exposures amounting to Php1.21Bn or 67% of the total loan portfolio, due to the Bank's focus on highly retail loans. This is followed by wholesale and retail with Php27.72Mn or 15% and agricultural, hunting and forestry with Php84.11Mn or 5%.

As of December 31, 2019, based on the Sectoral Concentration Index (SCI) used in computing for the Industry Concentration risk, the Bank needs to provide additional capital charge since the calculated SCI is already at 48%, which is within the 25 to 100 range wherein the multiplier is 0.08. This means that the Bank has risk concentration on Personal Consumption industry portfolio and there is a need to set up additional capital charge of Php16.08Mn to cover the risk.

Similarly, based on the Individual Concentration Index (ICI) metric used in computing for the top borrower's concentration risk, it shows that there is also need for the Bank to make an additional capital charge of Php4.02Million. This is because the resulting ICI of 0.15 is within the range of 0.1 to 0.2 which has 0.02 multiplier based on the above formula. Again, multiplying it from the total credit risk weighted assets, based on Bank's CAR report dated December 31, 2019, would result to credit concentration RWA of Php200.96Million and 10% additional capital charge would be Php20.10Million.

OPERATIONAL RISK

The Bank's philosophy of operational risk management, as adopted from its Parent Bank for consistency of implementation, has its foundation in the concept that taking risks is required in order to seek rewards and to fulfill the company's vision and mission. The Bank also acknowledges that operational risks, which are present in all phases and levels of every business undertaking, should be identified and assessed in

order to ensure that effective mitigation strategies are employed to the greatest extent possible.

As the Bank implements the enterprise-wide approach in risk management, it has designed a framework wherein everybody in the organization is aware, not just of the presence of operational risk in every process and function, but more importantly, of their respective roles in managing it. The Bank implements the three (3) lines of defense model in managing operational risk:

1. The first line of defense rests with the business lines which are responsible on day-to-day risk management. Part of this role is ensuring that internal controls are strictly observed and practices within their business lines are consistent with the enterprise-wide policies and procedures. Further, senior management is responsible for the implementation and consistent adherence by all personnel to the operational risk management framework.

2. The second line of defense comes from the operational risk management and compliance testing functions which are both independent of business operations. The Operational Risk Management Department oversees the implementation of ORM framework by designing risk assessment methodology and tools, coordinating risk management activities across the organization, and consolidating and reporting risk information/reports to the Board, thru the Risk Oversight Committee, and Senior Management. On the other hand, the Compliance Group conducts an independent assessment of the Bank's compliance with relevant laws, rules and regulations, as well as internal policies to determine areas that may potentially result in losses due to non-compliance.

3. The third line of defense is the internal audit function which provides independent assessments of the adequacy and effectiveness of the overall risk management framework and governance structures. This function reports directly to the Board thru the Audit Committee.

Overall, the Bank endeavors to establish an operational risk culture which promotes disciplined risk-taking and creates shareholder value through resources efficiency, loss reduction, increased revenues and lower regulatory capital.

The Bank adopts the definition of operational risk as provided in BSP Circular 900 (Guidelines on Operational Risk Management), to wit: "Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, but excludes strategic and reputational risks."

The Bank further acknowledges that "operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

The Bank uses the same operational risk management tools with the Parent Bank in identifying and assessing its operational risk exposures. The levels of operational risk exposure of the various units of the Bank are captured by the following operational risk management tools which are all anchored from the Parent Bank, results of internal/external audit and supervisory issues raised in the BSP Report of examination (ROE), Process Mapping, Risk & Control Self-Assessment (RCSA), Business



Impact Analysis (BIA), Key Risk Indicator (KRI), and Loss Events Database (LED) and Analysis.

Using the Basic Indicator Approach, the Bank's operational risk weighted assets as of December 31, 2019 stands at Php376.8Mn while capital charge is Php37.7Mn.

The Bank uses the Basic Indicator Approach (BIA) for the calculation of capital charge for operational risk. Under the BIA, the Bank must hold capital for operational risk equal to 15% of the average gross income over the previous three years of positive annual gross income. Figures for any year in which annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average.

The Bank compares the results of the RCSA as against the capital charge for operational risk computed using the Basic Indicator Approach (BIA) in validating the sufficiency of the regulatory capital requirements.

MARKET RISK

Market risk refers to changes in the value of financial instruments held by the Bank due to unpredictable fluctuations in prices of traded assets and commodities as well as fluctuations in interest and exchange rates and other market indices which affect either earnings or capital.

On a high-level note, the Bank maintains a structure of financial assets and financial liabilities at a level that is based on the overall risk appetite of the shareholders of the bank taking consideration of two important strategic elements: (1) return targets and (2) capital adequacy.

As of date, the bank has minimal and temporary investments on securities which is mostly performed for liquidity purposes and will eventually be deployed to lending as the need arises.

Specifically, LSB's market risk is composed only of interest rate risk, equity price and other commodity price risk. LSB's exposures to market risk as of December 31, 2019 is almost NIL since most of its loans and deposit products has fixed rates and impact of the interest rate risk is further assessed using the Interest Rate Risk in the Banking Book (IRRBB) and investments were all classified and booked as Held to Collect (HTC) securities, thus only minimal impact to market risk is assumed.

The Bank uses the standardized approach to measure risk weighted assets. However, the Bank has no market risk exposure as of 31 December 2019.

INTEREST RATE RISK IN THE BANKING BOOK

The Bank defines interest rate risk as the current and prospective risk to earnings or capital arising from the movements in interest rates. Interest rate risk is a form of market risk but it has a multi-dimensional nature involving the movements of rates across yield curves (term structures) of one or more instruments. Specifically, for the Bank's banking book, the lending activities, taking deposits with different maturities

and interest rates, and investing in a portfolio of fixed income securities, expose the Bank to interest rate risk. This risk may affect the recognition and/or accrual of interest income and expense.

The Bank utilizes the Earnings-at-Risk methodology in assessing the capital requirement of its interest rate risk exposure. Earnings-at-Risk (EaR) of the Bank is an estimate of the annualized maximum change in net interest income given a specified holding period for a particular time band's repricing gap, with a corresponding probability of occurrence in a normal market environment.

To validate the effectiveness of the Earnings-at-Risk methodology, actual annualized NII is compared against the calculated EaR. If there are model weaknesses exposed by back testing, they should be immediately communicated and resolved. Back testing should help motivate the organization to further enhance the quality of its model, as a large number of exceptions results in a higher regulatory capital requirement.

The repricing gap analysis is the Bank's initial step in assessing its capital requirement to cover for its interest rate risk. The Bank recognizes that changes in interest rates can have adverse effects both on its earnings and economic value.

As of December 31, 2019, the Bank's IRRBB risk-weighted assets and capital charge for interest rate risk in the banking book amounts to Php39.78Mn and Php3.98 Mn, respectively.

On a weekly basis, the Bank's Asset and Liability Committee (ALCO) surveys the interest rate environment, adjusts the interest rates for the Bank's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities.

On a monthly basis, the ROC is apprised of the Bank's balance sheet structure, analysis of its current and projected repricing mismatches, and potential loss on net interest income (EAR). The automated LCR system enabled efficient generation of Repricing Gap Reports and was able to address many inadequacies of reports that were only manually generated. Gap reports are now able to capture repricing information of loans, investments and other balance sheet accounts. Refer to the Notes to the Financial Statements for the rate shocks impact (under interest rate risk section).

Specific assumptions are used to reflect the behaviour of interest-sensitive assets and liabilities in the preparation of repricing gap. For loans, performing loans are bucketed according to either the maturity date (for accounts paying fixed interest rate) or next repricing date (for accounts paying floating interest rate). No prepayment is assumed. Non-performing loans are placed under non-rate sensitive. For deposits, non-maturity deposits such as current and savings accounts are placed under non-rate sensitive while time deposits and special savings accounts are bucketed based on their contractual maturity.

LIQUIDITY RISK

Liquidity risk is defined by the Bank as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable



losses. It includes the inability to manage unplanned decreases or changes in funding sources. It also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Bank may be unable to meet its obligations as they fall due as a result of: liquidity crunch initiated by the Monetary Authorities, overextended borrowing which results in the full utilization of the Bank of its credit lines from lenders, loss of marketability of the Bank's assets at any price, market perception that the Bank's profitability and financial conditions are deteriorating, substantial net negative gaps in the Bank's cash flow, and extraordinary events.

The Bank uses two approaches to liquidity measurement. The flow approach uses the maximum cumulative outflow (MCO) as a tool to measure liquidity gaps of maturing assets and liabilities. The stock approach is more traditional -- it focuses on ratios, and generally stems from the assumption that past experience enables institutions to determine a ratio that would provide future liquidity. The Bank may be able to validate projected liquidity gaps by comparing them against the actual levels of liquidity. Whenever significant differences are noted, the model may be recalibrated by considering the completeness of the data capture, and accuracy of maturity bucketing. The MCO report as of December 31, 2019 shows that the Bank's liquidity remains at a comfortable level. All books posted positive gaps across all tenors.

BUSINESS RISK

Under BSP Circular 747, Business Risk is referred to conditions which may be detrimental to a bank's business model and its ability to generate returns from operations, which in turn erodes its franchise value. Combining business risk with financial risks arising from the use of borrowed funds generates total corporate risk of the bank. Business risks shall include, but not limited to: (a) Risks to reputation that arise from internal decisions that may damage a bank's market standing; (b) Risks to reputation that arise from internal decisions and practices that ultimately impinge on the public's trust of a bank; (c) Risks from the actions of a bank that are contrary to existing regulations and identified best practices and reflect weaknesses in the implementation of codes of conduct and standards of good practice; and (d) Legal risks to the extent that changes in the interpretation or provisions of regulations directly affect a bank's business model. Legal risk also covers the Bank's current and potential losses from lawsuits.

BSP Circular No. 972 provides that the Bank should establish a dynamic and responsive compliance risk management system which is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules and related self regulatory organization standards, and codes of conduct applicable to its activities. Compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the Bank. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of director

The Bank's Risk Assessment process is covered in its Compliance Program, approved by the Board of Directors. The main procedures performed are summarized as follows:

- **Identification.** The Bank identified all historical risk events from all of the Bank's business units. In addition, it identified other business risks and their sources.
- **Measurement.** The Bank analyzed the level of risk associated for each risk event. The level of risk has been determined using both quantitative and qualitative measures. Quantitative measures refer to loss amounts determined to be the consequence of non-compliance. In cases where data is inadequate, qualitative measures had been used.
- **Mitigation and Control.** Based on the identified risks, Senior Management takes corrective actions in order to maintain the level of risk exposures within the tolerance level. Mitigants are in place in order to control the risk exposures.
- **Monitoring.** Senior Management with the assistance of Compliance Unit monitors the Bank's exposure to business risks and determines whether the said exposure is still within the level of risk that management is willing to take.

As a result of the assessment and quantification conducted, total risk weighted assets is Php9.8Mn while capital charge is only Php1.0Mn.

STRATEGIC RISK

The Bank's strategic risk management is aligned with the Bank's five-year strategic initiatives - Roadmap 2020. Its major strategic thrusts are supported by strong policies, guidelines, and processes in risk management. The following risks areas are covered: (1) Credit, (2) Concentration, (3) Business, (4) Strategic, (5) Liquidity, (6) Interest Rate Risk in the Banking Book, (7) Credit, and (8) Operations risks.

The Bank's overall strategies aggressive business growth by maximizing opportunities on high-yielding retail loan products particularly on Teachers Loans via APDS, Microfinance, Auto Loans, Housing Loans and SME loans. The management is aware that this strategy needs to be supported by automation, infrastructure and capable support.

The Bank identified the external risk, disruptions in the economy, as the strategic risk which may hinder the Bank from executing the initiatives set to achieve the financial projection. Global and domestic challenges may create an unfavorable operating environment for the Bank and navigating through these external shocks may serve as a headwind, which can lead to adverse developments. Given this possibility, the Bank utilizes the full range of available macroeconomic data and tools to measure the likelihood and its impact to the Bank's general business.



This procedure assesses and evaluates the impact of economic uncertainties to the Bank's capital adequacy. Advanced quantitative and qualitative techniques are used in the process to identify the risk factors involved and to prepare internal models for the different scenarios and arrive at the required capital level. The strategic risk management is an integral part in the strategy setting, strategy execution, and strategic management procedures of the Bank to achieve its objectives.

Aside from the medium-term plan Roadmap 2020, the Bank sets out annual strategic planning to ensure that the strategies are aligned with the goals. It matters that the Bank continues to carry out its business strategies in the long term and remain relevant. A management framework for strategic risk is primarily concerned with the following areas: business environment in which the Bank operates, response of the Bank makes to the developments in its operating environment; and required capital requirements commensurate to the risk exposures.

Methodologies were put in place for the Bank's risk assessment. In this process, to be able to develop a sufficient model, the Bank needs to identify the hazards and the risk factors that may potentially impact the Bank's capital adequacy. The model covers both the quantitative and qualitative data collection in order to cover the non-quantifiable risk aspects.

A comprehensive review of the forward-looking economic prospects of the international, regional, and domestic financial institutions was made to analyze and evaluate the potential risks associated with the operations of the Bank. This resulted to the identification of key macro-economic variables that was used in the model to test the capital adequacy of the Bank in the different scenarios identified.

The risk assessment methodology provides the Bank initial effective strategic risk mitigation process. Measures of certain financial and non-financial indicators support the Senior Management and RMU in evaluating the Bank's growth. These also provide guidance to the Board on how to proceed with the Bank's strategies, either to implement strategic adjustments or put to end to certain strategic initiatives.

As an additional measure, a more extensive channel for risk mitigation has been implemented by the Bank. Every six months or as necessary, the Senior Management together with the Board gets to review the Bank's overall strategy and risk appetite as to their materiality. Collectively, decisions are made relevant to the Bank's financial performance should developments in strategic initiatives are necessary. This meeting is used as a venue to provide a more extensive discussion and decision making processes where financial metrics are discussed under long-term goal setting. These updates in strategic direction, depending on the management and the Board, may then be affected.

A scenario planning exercise was carried out adapting the macroeconomic risk factors identified in the Risk Assessment process. The historical data of these variables were collected from the earliest to the latest data available. The economic cycles of the Philippines have been tested and measured. Likewise, the global and domestic headwinds that led to the downturns in the economy were identified. The impact of each macroeconomic variable is tested against the bust in the economy, with adjustments due to seasonality.

CAPITAL MANAGEMENT AND ADEQUACY



Qualifying Capital	2019	2018
Tier 1 Capital		
Paid up common stock	1,245,960,000.00	1,245,960,000.00
Additional paid in capital	-	-
Deposit for common stock subscription	-	-
Retained earnings	(695,605,612.96)	(717,118,115.25)
Undivided profits	41,230,081.34	14,042,634.37
Net unrealized gains or losses on AFS securities	-	-
Cumulative foreign currency translation	-	-
Others	10,203,276.00	1,233,206.00
Minority Interest	-	-
Less: Regulatory adjustments		
DOSRI	(492,304.87)	(207,207.29)
Deferred income tax	(26,461,909.00)	(27,059,272.00)
Goodwill	-	-
Other intangible Assets	(1,933,850.55)	(3,060,150.53)
Investment in Subsidiary	-	-
Total Common Equity Tier 1 Capital	572,899,679.96	513,791,095.30
Additional Tier 1 Capital		
Instruments issued by the bank that are eligible as Capital	-	-
Total Tier 1 Capital	572,899,679.96	513,791,095.30
Less: Investment in Subsidiary - 50%		
Net Tier 1 Capital	572,899,679.96	513,791,095.30
Tier 2 Capital		
Redeemable preferred stock		
General Loan Loss Provision (GLLP)	15,439,292.58	13,069,469.94
Unrealized Gain AFS Equity Securities		
Total Tier 2 Capital	15,439,292.58	13,069,469.94
Less: Investment in Subsidiary - 50%		
Net Tier 2 Capital	15,439,292.58	13,069,469.94
Total Gross Qualifying Capital	588,338,972.54	526,860,565.24
Less: Total Investment in Subsidiary		
Total Qualifying Capital	588,338,972.54	526,860,565.24

Qualifying Capital	2019	2018
Tier 1 Capital	572,899,679.96	513,791,095.30
Common Equity Tier 1	572,899,679.96	513,791,095.30
Additional Tier 1 Capital	-	-
Tier 2 Capital	15,439,292.58	13,069,469.94
Gross Qualifying Capital	588,338,972.54	526,860,565.24
Less: Required deductions	-	-
Total Qualifying Capital	588,338,972.54	526,860,565.24
Risk Weighted Asset	2,386,388,644.45	1,906,648,454.30
Common Tier 1 Ratio	24.01%	28.44%
Capital Conservation Buffer	18.01%	22.44%
Tier 1 Capital Ratio	24.01%	28.44%
Capital Adequacy Ratio	24.65%	29.16%

Credit Risk-Weighted Asset	2019	2018
Credit Risk-Weighted Asset		
Total Risk Weighted On-Balance Sheet Asset	2,009,563,657.89	1,475,414,286.77
Total Risk Weighted Off-Balance Sheet Asset	-	-
Total Counterparty Risk Weighted Asset in the Trading Book (Derivatives & Repo-style Transactions)	-	-
Total Gross Risk-Weighted Assets	2,009,563,657.89	1,475,414,286.77
Deductions:		
General Loans Loss Provision (in excess of the amount permitted to be included in Upper Tier 2)	-	-
Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	-	-
Total Credit Risk-Weighted Asset	2,009,563,657.89	1,475,414,286.77

Reconciliation between the Philippine Financial Reporting Standards (PFRS) Capital, capital under Philippine Regulatory Principles and Qualified Capital for Minimum Adequacy under Basel III are as follows (in PHP million):

PFRS Capital, 2019	667.64
Difference due to Accounting Principles	(65.85)
RAP Capital, 2019	601.79
General Loan Loss Provision	15.44
Capital Adjustments	(28.89)
Qualified Capital for Minimum Capital Adequacy Compliance under Basel II	588.34
PER CAR Submitted to BSP	588.34

CREDIT RISK-WEIGHTED ASSETS



Name of Item	Exposures held or Specific Provisions A	Excess/Deficit Coverage by CRR Gross of Liquidity Threshold (Part II - 9)	Exposures not Covered by CRR	Risk Weighting					
				0%	20%	50%	75%	100%	TOTAL
1	2	3	4	5	6	7	8	9	Sum of 4 to 9
Cash on Hand	82,485,181.48		82,485,181.48						82,485,181.48
Check and Other Cash Items									0.00
Due from Banks/Financial Institutions (Sum of C.1 and C.2)	382,213,190.88	0.00	382,213,190.88		0.00				382,213,190.88
1. Repurchase agreements	382,213,190.88		382,213,190.88						382,213,190.88
2. Federal Reserve Bank of New York		0.00							0.00
Due from Other Banks	89,817,253.75		89,817,253.75			89,817,253.75			89,817,253.75
Due from Other Financial Institutions (Sum of C.3 and C.4)	202,319,302.03	0.00	202,319,302.03		0.00				202,319,302.03
1. Non-bank financial institutions	202,319,302.03	0.00	202,319,302.03		0.00				202,319,302.03
2. Government Securities	151,077,531.28		151,077,531.28						151,077,531.28
3. Corporates	63,441,400.74		63,441,400.74						63,441,400.74
Loans and Receivables (Sum of C.5 and C.6)	1,587,541,072.25	512,812.23	1,587,541,072.25	0.00	48,810,175.28	282,002,458.49	1,086,596,543.66	5,929,081.80	1,587,541,072.25
1. Loans and Receivables Others	1,587,541,072.25	512,812.23	1,587,541,072.25	0.00	48,810,175.28	282,002,458.49	1,086,596,543.66	5,929,081.80	1,587,541,072.25
a. Non-delinquent exposures	1,587,541,072.25	512,812.23	1,587,541,072.25	0.00	48,810,175.28	282,002,458.49	1,086,596,543.66	5,929,081.80	1,587,541,072.25
a.1. Microfinance Small and Medium Enterprises	282,002,458.49	0.00	282,002,458.49	0.00	0.00	282,002,458.49	0.00	0.00	282,002,458.49
1. Qualified Banks	282,002,458.49		282,002,458.49						282,002,458.49
Loans to individuals for									
a.2. Housing Purposes (includes subprime under DLT)	48,810,175.28		48,810,175.28						48,810,175.28
Exposures fully secured by an mortgage on immovable property that is or will be occupied by the borrower	48,810,175.28		48,810,175.28			48,810,175.28			48,810,175.28
a.3. Loans to individuals	1,086,596,543.66	512,812.23	1,086,596,543.66						1,086,596,543.66
1. Agricultural Loans	42,836,106.28		42,836,106.28						42,836,106.28
Loans to institutions for	1,023,100,437.32	512,812.23	1,023,100,437.32						1,023,100,437.32
i. Consumption and other									
b. Delinquent exposures	82,385,501.16	0.00	82,385,501.16						82,385,501.16
b.1. Housing Loans	386,819.58		386,819.58						386,819.58
b.2. Other than Housing Loans	81,998,681.58		81,998,681.58						81,998,681.58

Loans and Receivables Arising from Repurchase Agreements, Certificates of	56,578,028.00	0.00	56,578,028.00	0.00	0.00	0.00	0.00	0.00	56,578,028.00
1. Non-delinquent exposures	56,578,028.00	0.00	56,578,028.00	0.00	0.00	0.00	0.00	0.00	56,578,028.00
a. Sovereign	56,578,028.00	0.00	56,578,028.00	0.00	0.00	0.00	0.00	0.00	56,578,028.00
a.1. Resident (RMO and DCP)	56,578,028.00	0.00	56,578,028.00	0.00	0.00	0.00	0.00	0.00	56,578,028.00
Residential	56,578,028.00		56,578,028.00						56,578,028.00
Sales Contract Receivable (Sum of K.1 and K.2)	28,949,801.18	0.00	28,949,801.18	0.00	0.00	25,212,033.46	1,737,567.72	28,949,801.18	28,949,801.18
1. Non-delinquent exposures	28,949,801.18	0.00	28,949,801.18	0.00	0.00	25,212,033.46	1,737,567.72	28,949,801.18	28,949,801.18
2. Delinquent exposures									
Real and Other Properties Acquired	117,837,090.92		117,837,090.92						117,837,090.92
Total Exposures Excluding Other Assets (Sum of A to L)	2,656,541,700.23	512,812.23	2,656,541,700.23	56,578,028.00	48,810,175.28	282,002,458.49	1,086,596,543.66	2,656,541,700.23	2,656,541,700.23
Other Assets (Sum of K.1 and K.2 minus A to L)	142,971,427.03		142,971,427.03						142,971,427.03
1. Total Assets	2,799,513,127.26		2,799,513,127.26						2,799,513,127.26
2. General Loan Loss Provisions (GLLP)	16,428,262.28		16,428,262.28						16,428,262.28
3. Derivatives									
Total Exposures Excluding Other Assets (Sum of M and N)	2,656,541,700.23		2,656,541,700.23						2,656,541,700.23
1. Financial assets held for trading									
Derivatives with positive fair value held for trading									
Total outstanding derivatives and accommodations, both direct and indirect, including derivatives, securities and their related interests (DCSO)	28,481,903.00		28,481,903.00						28,481,903.00
2. Other non-trading assets	913,600.56		913,600.56						913,600.56
Total Derivatives (Sum of O.1 and O.2)	29,395,503.56		29,395,503.56						29,395,503.56
Total Exposures Including Other Assets (Sum of M and N)	2,799,513,127.26	512,812.23	2,799,513,127.26	56,578,028.00	48,810,175.28	282,002,458.49	1,086,596,543.66	2,799,513,127.26	2,799,513,127.26
Total Risk-weighted Credit Assets covered by CRR (Part II - 10)				0.00	48,810,175.28	282,002,458.49	1,086,596,543.66	2,799,513,127.26	2,799,513,127.26
Total Risk-weighted Credit Assets covered by CRR (Part II - 11)				0.00	0.00	0.00	0.00	0.00	0.00
TOTAL RISK-WEIGHTED ON-BALANCE SHEET ASSETS (Sum of P and Q) (Part II, Item A.1)				0.00	48,810,175.28	282,002,458.49	1,086,596,543.66	2,799,513,127.26	2,799,513,127.26

PRODUCTS & SERVICES

DEPOSIT PRODUCTS



NOW ACCOUNT

The NOW account is a 2-in-1 checking account that allows you to settle your day-to-day payables through its check book and conveniently allows you to monitor your check issuances through passbook.

SAVINGS ACCOUNT

Regular Savings

An interest bearing savings account that allows the customer the flexibility of accessing funds anytime through over-the-counter (OTC) for both savings and transactional purposes.

Bulilit Savings

An interest bearing savings account designed specifically for minors aging from seven (7) to twelve (12) years old. Like the Regular Savings Account, it allows the customer the flexibility of accessing funds anytime through over-the-counter (OTC) for savings and transactional purposes.

Friendly Savings

A Savings Account that allows clients to earn higher than regular savings rates by maintaining high deposit balances. The earnings potential is largely influenced by the amount of deposit maintained and the prevailing Market Interest Rates.

SPECIAL SAVINGS ACCOUNT

A Peso Term Deposit account that allows clients to earn higher than regular savings rates by maintaining their deposit balances for a specified period of time. The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing Market Interest Rates.

TIME DEPOSIT ACCOUNT

A Peso Term Deposit account that is evidenced by a certificate of Time Deposit (CTD). It allows clients to earn higher than regular savings rates by maintaining their deposit balances for a specified period of time. The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing Market Interest Rates.

LOAN PRODUCTS



CONSUMER LOANS

Microfinance Loan (Go Micro Regular, Go Micro Plus, Go Micro SME, Power Up)

A loan product managed by the Retail Banking Group that is targeted to microenterprises. It is created to provide an affordable credit facility that will help micro entrepreneurs expand their present business activities that will eventually increase their income. It offers better interest rates and easier payment schemes as compared to the informal money lenders that microentrepreneurs currently deal with.

APDS Loans for teachers

A multi-purpose loan product managed by the Retail Banking Group (RBG) that is targeted to DepEd's teaching and non-teaching personnel. Repayment for APDS obligation is drawn against DepEd teaching personnel's salaries thru automatic payroll deduction.

Professional Salary Loan

A multi-purpose loan program managed by the Retail Banking Group (RBG) that is targeted to employed individuals. The loan is granted based on the paying capacity of the borrower. Repayment are drawn against the borrower's salaries and other payroll credits.

Housing Loan

An amortizing term loan facility secured by real estate properties under the borrower's name.

Auto Loan

A peso loan available to individuals or entrepreneurs to finance the purchase of brand-new or second-hand vehicles. Re-financing of units already owned by the applicant is also covered by the product.

Jewelry Loan

A multi-purpose loan facility offered to individuals and secured by jewelry or gold items. The loan is payable via advance monthly interest payments with the loan principal payable monthly or upon maturity.

COMMERCIAL LOAN

Small and Medium Enterprise Loan

A loan program that helps build business by providing short and long term facilities to Small and Medium Enterprise to support liquidity or capital build-up, expansion and acquisitions or buyouts, among and other business needs.

Small Business Loan

A loan product that is a fully-secured credit facility (either by real estate or deposits) targeted to Small and Medium Enterprises (SMEs). In the current market, SMEs have limited access to credit.

The SBI product aims to address this need by providing SMEs the cash they need to grow their business. Extending loans to this target market will also help the Bank in increasing its deposits, given that SMEs represent a huge CA/SA market.

BRANCH NETWORK & ATM



ALBAY

Regular Branch

738 Building, Rizal Street
Old Albay District 4500
Legazpi City
0917-5841678
0998-8653411
(052) 732-3000 local 80006

MASBATE

Regular Branch

Units 8&9, S&T Building
Cagba Street
Brgy. Tugbo, Masbate City
0917-5841690
0998-8653410
(052) 732-3000 local 80010

POLANGUI

Regular Branch

National Road, Basud
Polangui, Albay
0917-5841687
0998-8653410
(052) 732-3000 local 80004

DAET

Regular Branch

SURIA Building | Tukban Street
Daet, Camarines Norte
0917-5841680
0998-5407465
(052) 732-3000 local 80008

DARAGA

Regular Branch

Perere Building
Sta. Maria Street
San Roque, Daraga, Albay
0917-5841681
0998-8653406
(052) 732-3000 local 80002

DASMARIÑAS

Branch Lite

WINCORP Building
Molino-Paliparan Road Salawag,
Dasmariñas City, Cavite
0917-5635932
0917-7073730
(052) 732-3000 local 80016

GOA

Branch Lite

J. Quinzon Building
Bagumbayan Pequeño
Rizal Street, Goa, Camarines Sur
0999-2291130
(052) 732-3000 local 80012

GUINOBATAN

Regular Branch

T. Paulate Street
Guinobatan, Albay
0917-5841682
0998-8653689
(052) 732-3000 local 80007

I LUCENA

Regular Branch

A.M. I ubi Building
corner Lagarao & Elias Streets
Brgy. S. Lucena City
0999-2291134
(052) 732-3000 local 80014

MASBATE

Regular Branch

Units 8&9, S&T Building
Cagba Street
Brgy. Tugbo, Masbate City
0917-5841690
0998-8653410
(052) 732-3000 local 80010

NAGA

Regular Branch

NEA Building, Triangulo
Naga City
0917-5841691
0998-8653408
(052) 732-3000 local 80011

SAN FERNANDO, PAMPANGA

Regular Branch

4 AND 2 Building
Mc Arthur Highway Sindalan
0926-9593956
(052) 732-3000 local 80015

SORSOGON

Regular Branch

G/F Altarejos Building
Jamoralln Street
Brgy. Burabod, Sorsogon City
0917-5841692
0998-8653690
(052) 732-3000 local 80005

TABACO

Regular Branch

G/F, N.N. Building
AA Berces Street, Basud
Tabaco City
0917-5841693
0998-8653691
(052) 732-3000 local 80003

CALAUAG

Branch-Lite

Agravante Building
Rizal Street, Brgy. Sta. Maria
Calauag, Quezon
0999-2291132
(042) 717-6763
(052) 732-3000 local 80013

IRIGA

Branch-Lite

DL5 Building, 121-Zone 6
Hi Way 1, San Isidro
Iriga City
0927-3720075
(052) 732-3000 local 80017

VIRAC

Regular Branch

G/F D&L Building
corner Surido & Rizal Streets San
Jose,
Virac, Catanduanes
0917-5841696, 0908-8113473
(052) 732-3000 local 80009



INDEPENDENT AUDITOR'S REPORT



The Stockholders and the Board of Directors
Legazpi Savings Bank, Inc.
738 Building Rizal Street, Old Alibay District, Legazpi City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Legazpi Savings Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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



Report on the Supplementary Information Required Under Revenue Regulations 15 2010 and Bangko Sentral ng Pilipinas (BSP) Circular No. 1074

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 Revenue Regulations 15 2010 in Note 27 and the BSP Circular No. 1074 in Note 28 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and BSP, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Legazpi Savings 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.

SYCIP GORRES VELAYO & CO.

Juan Carlo B. Maminta
Partner
CPA Certificate No. 115260
SEC Accreditation No. 1699-A (Group A),
August 16, 2018, valid until August 15, 2021
Tax Identification No. 210-320-399
BIR Accreditation No. 08-00998-132-2018,
February 9, 2018, valid until February 8, 2021
PTR No. 8125258, January 7, 2020, Makati City

April 30, 2020

	December 31	
	2019	2018
ASSETS		
Cash and Other Cash Items	₱72,868,361	₱70,058,658
Due from Bangko Sentral ng Pilipinas (Note 13)	391,666,967	521,361,553
Due from Other Banks	91,869,631	65,986,446
Securities Purchased Under Resale Agreement (Note 6)	66,578,028	88,000,000
Investment Securities at Amortized Cost (Note 7)	200,309,182	200,389,063
Loans and Receivables (Notes 8 and 22)	1,579,602,409	1,027,763,253
Property and Equipment (Note 9)	142,812,646	76,292,913
Investment Properties (Note 10)	115,890,079	128,892,010
Deferred Tax Asset (Note 21)	113,377,046	24,326,063
Other Assets (Note 11)	14,986,695	17,251,362
	₱2,789,961,044	₱2,220,321,321

LIABILITIES AND EQUITY

LIABILITIES

Deposit Liabilities (Notes 13 and 22)

Demand	₱175,869,191	₱174,535,035
Savings	1,415,340,652	1,252,833,133
Time	380,821,370	180,076,721
	1,972,031,213	1,607,444,889
Accrued Expenses (Note 14)	26,950,414	14,804,526
Redeemable Preferred Shares (Note 15)	30,700,000	30,700,000
Other Liabilities (Note 14)	92,639,101	20,169,493
	2,122,320,728	1,673,118,908

EQUITY

Capital Stock (Note 17)	1,245,960,000	1,245,960,000
Deficit	(580,805,189)	(706,471,702)
Surplus Reserve (Note 17)	6,451,913	6,451,913
Remeasurement Gain (Loss) on Retirement Liability (Note 19)	(3,966,408)	1,262,202
	667,640,316	547,202,413
	₱2,789,961,044	₱2,220,321,321

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

STATEMENTS OF COMPREHENSIVE INCOME



	Years Ended December 31	
	2019	2018
INTEREST INCOME		
Loans and receivables (Notes 8 and 22)	₱330,641,740	₱197,237,615
Due from Bangko Sentral ng Pilipinas and other banks	10,333,621	18,011,736
Investment securities at amortized cost (Note 7)	8,350,307	8,237,858
Securities Purchased Under Resale Agreement (Note 6)	5,463,332	3,902,137
	354,789,000	227,389,346
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 22)	26,757,084	19,021,937
Lease liability (Notes 14 and 20)	4,334,866	-
	31,091,950	19,021,937
NET INTEREST INCOME	323,697,050	208,367,409
Service fees and commission income (Note 18)	1,672,222	1,426,376
Service fees and commission expense (Note 18)	8,884,263	4,997,867
NET SERVICE FEES AND COMMISSION INCOME (EXPENSE) (Note 18)	(7,212,041)	(3,571,491)
Profit from assets sold (Notes 9, 10 and 11)	13,015,692	1,400,531
Gain on foreclosure - net (Notes 10 and 11)	12,418,272	4,055,979
Miscellaneous (Note 18)	14,365,935	9,256,751
TOTAL OPERATING INCOME	356,284,908	219,509,179
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 19 and 22)	118,135,657	75,884,831
Security, messengerial and janitorial	46,856,172	18,145,066
Depreciation and amortization (Note 9)	36,982,860	23,677,712
Taxes and licenses (Note 21)	25,557,007	15,203,330
Transportation and travel	17,250,978	10,962,822
Occupancy and equipment-related (Note 20)	13,534,478	16,046,364
Information technology	10,256,315	7,730,469
Power, light and water	8,959,091	5,692,736
Insurance	6,537,224	5,739,910
Communication	4,852,505	2,057,840
Entertainment, amusement and recreation (Note 21)	2,078,971	2,179,031
Management and professional fees	1,997,137	1,861,509
Provision for credit and impairment losses (Note 12)	595,843	1,039,139
Miscellaneous (Note 18)	13,949,959	14,388,897
TOTAL OPERATING EXPENSES	307,544,197	200,609,656
INCOME BEFORE INCOME TAX	48,740,711	18,899,523
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)	(76,925,802)	9,026,617
NET INCOME	₱125,666,513	₱9,872,906

See accompanying Notes to Financial Statements.

	Years Ended December 31	
	2019	2018
NET INCOME	₱125,666,513	₱9,872,906
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be reclassified to profit or loss:		
Remeasurement gain (loss) on retirement liability, net of tax (Note 19)	(5,228,610)	480,070
TOTAL COMPREHENSIVE INCOME	₱120,437,903	₱10,352,976

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 17)	Deficit	Surplus reserve (Note 17)	Remeasurement gain (loss) on retirement liability (Note 19)	Total
Balance at January 1, 2019	₱1,245,960,000	(₱706,471,702)	₱6,451,913	₱1,262,202	₱547,202,413
Net comprehensive income	-	125,666,513	-	(5,228,610)	120,437,903
Balance at December 31, 2019	₱1,245,960,000	(₱580,805,189)	₱6,451,913	(₱3,966,408)	₱667,640,316
Balance at January 1, 2018	₱1,245,960,000	(₱716,344,608)	₱6,451,913	₱782,132	₱536,849,437
Net comprehensive income	-	9,872,906	-	480,070	10,352,976
Balance at December 31, 2018	₱1,245,960,000	(₱706,471,702)	₱6,451,913	₱1,262,202	₱547,202,413

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS



	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱48,740,711	₱18,899,523
Adjustments for:		
Depreciation and amortization (Note 9)	36,982,860	23,677,712
Profit from assets sold (Notes 9, 10 and 11)	(13,015,692)	(1,400,531)
Gain on foreclosure (Notes 10 and 11)	(12,418,272)	(4,055,979)
Retirement expense (Note 19)	4,407,881	1,980,377
Interest on lease liability (Notes 14 and 20)	4,334,866	-
Provision for credit and impairment losses (Note 12)	595,843	1,039,139
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Loans and receivables	(540,158,551)	(30,593,724)
Other assets	(3,200,594)	(1,120,828)
Increase (decrease) in:		
Deposit liabilities	364,586,324	(201,283,254)
Accrued expenses	15,341,007	2,051,874
Other liabilities	7,572,235	6,097,713
Net cash used in operations	(86,231,382)	(184,707,978)
Contributions paid on retirement plan (Note 19)	-	(2,160,408)
Income taxes paid	(8,724,834)	(6,229,042)
Net cash used in operating activities	(94,956,216)	(193,097,428)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(33,711,589)	(50,303,360)
Software costs (Note 11)	(1,108,893)	(2,162,063)
Proceeds from sale of:		
Investment properties (Notes 10 and 24)	12,979,410	8,913,400
Property and equipment (Note 9)	2,091,165	2,156,414
Repossessed chattels (Note 11)	427,000	145,300
Net cash used in investing activities	(19,322,907)	(41,250,309)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of principal portion of lease liability (Note 20)	(8,144,547)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(122,423,670)	(234,347,737)

(Forward)

	Years Ended December 31	
	2019	2018
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	₱70,058,658	₱42,243,241
Due from Bangko Sentral ng Pilipinas	521,361,553	396,243,328
Due from other banks	65,986,446	82,797,603
Securities purchased under resale agreement	88,000,000	458,470,222
	745,406,657	979,754,394
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	72,868,361	70,058,658
Due from Bangko Sentral ng Pilipinas	391,666,967	521,361,553
Due from other banks	91,869,631	65,986,446
Securities purchased under resale agreement	66,578,028	88,000,000
	₱622,982,987	₱745,406,657
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱356,111,841	₱229,932,590
Interest paid	27,450,469	18,940,216

See accompanying Notes to Financial Statements.

*For full details regarding our Audited Financial Statements, kindly visit our website www.lagazpiibank.com.ph and access the said item.