ENTERPRISE Bank

2011 Annual Report

Enterprise Development and Lending Center

Vision

To be a strong regional bank within greater Mindanao that leads in the delivery of high quality financial products and services that promote, support and encourage entrepreneurship in the countryside.

Mission

Provide innovative financial products and services to small and medium sized enterprises, micro entrepreneurs, especially women, and to members of low-income groups to ensure that credit is utilized appropriately to improve their economic well-being.

Promote savings consciousness as a means to attaining self-sufficiency and self-reliance.

Strive to offer the highest quality service and customer value by investing in human resource development.

Provide a work environment that will stimulate the employees to be innovative and enable them to realize their professional objectives.

Make certain that each employee will be given the opportunity for professional advancement as merited and have the right to economic security and stability.

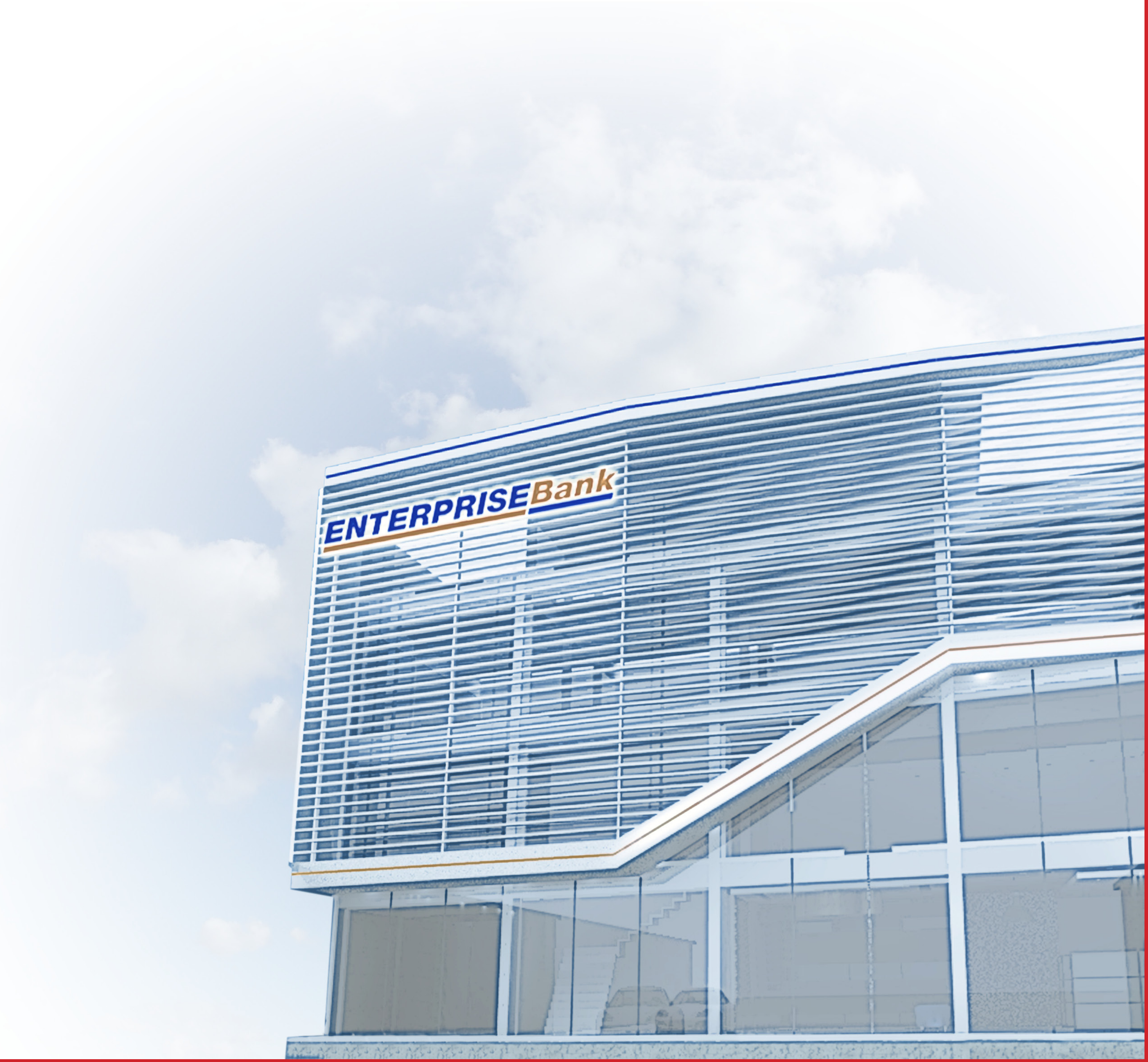
Guarantee that shareholder's value is enhanced through prudent investment undertakings and efficient operations; and

Abide by the laws and regulations of the Philippines to which it is subject and adhere to international standards within core operations.

The COVER

Perspective of the Enterprise Development and Lending Center (EDLC) slated for completion summer of 2013.

The EDLC will provide non-financial products and services to help micro and small business entrepreneurs enhance their business skills and market access to improve their income generation and asset-building capacity.



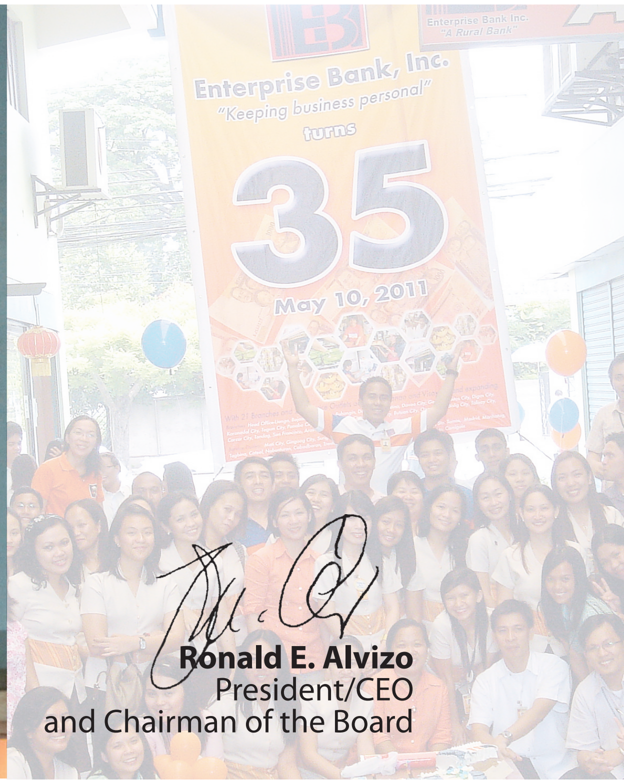
ENTERPRISE Bank

35 years of helping build vibrant communities one enterprise at a time

Table of Contents:

Map of Mindanao

FOREWORD



Ronald E. Alvizo
President/CEO
and Chairman of the Board

Enterprise Bank did not buckle down to challenges. Instead, it looked on every challenge as launch pad on how to sustain the operations in the next decades and beyond.

The year 2011 reaffirms Enterprise Bank's years of repute and stability as a bank. Becoming more efficient and steadily growing, this largely family-owned rural bank from a fifth class municipality of Lianga, Surigao del Sur has continuously flourished to forty-two banking units establishing its own market niche in Mindanao's biggest cities and in a number of unbanked communities. We largely attributed this mounting success through synchronized management efforts and increased hardwork at all levels.

Our more than three decades of providing fast and accessible banking services demonstrated the institution's resiliency. The global financial crisis and domestic banking industry challenges hitting year on year did not dampen our motivation to continue our course and get more focused in our corporate mission. We managed to engage and used every opportunity to rationalize our operations, became efficient and prepare to meet the realities of the ensuing decades.

Having survived and grown successfully in mainstream banking is not a reason for Enterprise Bank to slacken and become comfortable with past victories. The bank is constantly searching for innovative ways to create new market opportunities and to nurture stronger partnership with its growing clients.

Our clients who have been making possible our every step a success inspired us to fashion important initiatives towards refining customer service. As the most abounding programs of 2011, the bank launched the Branch Academy and Customer Service Program.

The idea of the Branch Academy came about to create a headstart in Customer Service Program. We had in mind developing a throng of capable and service oriented frontlines stationed in every EBI access point. Minding the enormity of investments in building capabilities, we went beyond the confines of a classroom by designing a much more sustainable and efficient on-the-job training to institute knowledge and hone technical skills of ground personnel in various areas of branch servicing and operations. The Academy's products, abetted by efficient delivery channels thru wider office networks and technology driven access points enabled the bank to start cultivating the desired client friendly environment for its growing customer base.

From investments in people's capability, the bank also embarked on important partnerships that assured us of reliable and effective back office support systems. This year marked our first major collaboration with one of the biggest service network in the country, BancNet, to fully launch our Automated Teller Machine (ATM) facility. EBI is certain the new ATM products and services will delight especially the smallest of our clients when it becomes fully operational in early 2012. We have reached that phase where technology enables us to keep up with our clients wherever they may be. To support this and other future mobile banking services, EBI entered into separate agreements with Dell and IBM to install a robust Data Center and Disaster Recovery site. These advanced technologies powered the bank to achieve better overall service performance, improve data security, and effect faster communication links among the various operating units.

In all the ongoing capability and capacity building in 2011, Enterprise Bank celebrated its 35th founding anniversary with a dash of pride. Touching lives of a multitude entrepreneurs receiving banking service at the right place and at the right moment is the incessant motivation that keeps EBI pursue its mission to be accessible to customers especially in Mindanao.

With all these feats, we thank our shareholders and business partners for continually believing in us. We likewise invite our clients to remain growing with us and continue to enjoy the kind of personalized service we reserve solely for you today and in the many years to come.

This year’s annual report

photo by adpsje

... focuses on the southern part of Mindanao where Enterprise Bank has interestingly attracted a number of Medium and Small Business entrepreneurs engaged in various enterprise.

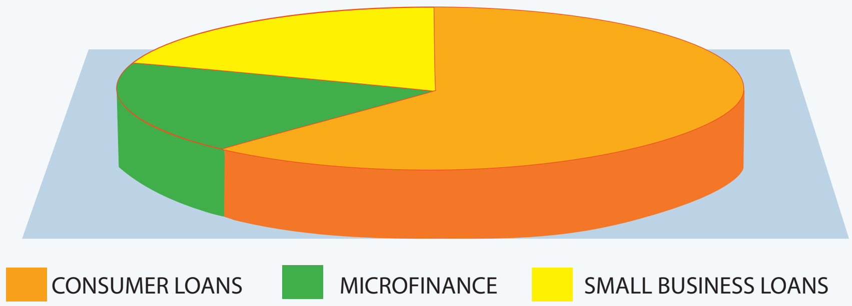
OPERATIONAL HIGHLIGHTS

Year 2011 demonstrated Enterprise Bank's attempt to position itself for long-term growth and sustainability as the bank shifted from rural bank to a thirft bank. Apart from huge investments in technology and capability building, and introduction of technology driven products, the bank also adopted significant changes in accounting policies based on international standards to increase transparency and improve business practices.

Enterprise Bank anticipated these efforts to be covered by the year's profits and settled with lower but acceptable profitability indicators. The following are the highlights during the year:

Core Business

Business started lean in early months but proceeded with impressive turn-out in the second part of 2011. Business confidence improved and the market was especially responsive making the bank disbursed Php2.3 billion in loans posting 11.7% more volume turn-over vis a vis 2010. It gave a boost to the over-all portfolio which stood at a year-end figure of Php1.45 billion with a growth of 21% from previous year.



The opening of Enterprise Bank branches in General Santos City in 2009 and in Koranadal City in 2010 ushered the significant expansion of the bank in Region XII or now popularly known as the SOCCSKSARGEN Region. The shift was propelled by the need to expand having saturated most of the markets in Surigao, Agusan, and the Davao Provinces.

OPERATIONAL HIGHLIGHTS

Ricardo Daraug 's business acumen and foresight are what make him succeed in every endeavor he engages into. This endearing boss has effortlessly earned the respect of his employees. He has been into agri-business and livestock raising for many decades. His recent shift to real estate is a welcome change because according to him, "the return of investment here is fast."

Romel Divino's poultry farm houses thousands of layers. The fresh eggs from his farm make the mornings of various subdivisions households in Southern Cotabato filled with delicious waft from sizzling and mouthwatering omellets. The overflowing demands for eggs made Mr. Divino availed a loan from Enterprise Bank to expand his poultry.

Client retention had been better manifested by 50—60% repeat loans contribution to the annum sum of disbursed loans. This and the fresh accounts stimulated growth in the enterprise loan portfolio. All loan products – microfinance, small business and consumer loans – posted substantial increases in loan portfolio with a mix of 38% enterprise loans and 62% consumer and other loans.

There were 431 small business entrepreneurs who were provided small business loans in 2011 who are mainly engaged in various agri-based industrial or commercial enterprises in Central Mindanao. Small business loan portfolio grew by 34% over last year.

Over the last six years, the bank has been able to identify and a viable and sustainable market niche for its loan product.

Over the last six years, the bank has been able to identify and a viable and sustainable market niche for its loan product as well as acquire the experience that should be very useful in scaling up small business loans for the next five years. The goal is to achieve a 50% share in enterprise to consumer loans.

Microfinance portfolio posted an 8% growth in loan portfolio as the bank shifts from group to individual lending methodology. Expansion of micro agi during the year was suspended until pending issues with the government guarantee mechanism was resolved. Microfinance implementation had, for the last 15 years, utilized grameen banking methodology. As years passed, market preferences started to shift as more providers entered the market.

During the year, the bank obtained technical assistance from Capital Plus Exchange (CPE), consulting company based in the United States, to improve the capacity of the bank to scale up its small enterprise loan program.

Major improvements were introduced at all levels specifically product rationalization in line with industry practices, new product packages that can now be offered with the new thrift bank license, improvement in processes and procedures and the reorganization of the whole credit department to clearly delineate responsibilities and improve controls.

The bank's untarnished track record as reliable financial service provider makes it easier to establish a strong foothold and dominance in the region served by other rural and commercial banks for decades.

OPERATIONAL HIGHLIGHTS

"My father taught us the value of hard work", **Dr. Aymie Corazon Bartolome** shared. A doctor by profession, this soft spoken lady is an entrepreneur by heart. She recently ventured into pizza business and brought the Giacomino's franchise. Dr. Aymie believes in the potential of this pizza product that she availed a loan from Enterprise Bank Her additional outlets soon to be seen in many Gensan's shopping malls in Mindanao.

Mrs. Teresita Tuazon's happy aura reflects the kind of business she engages in. Her SouthSide Resort and Resto becomes the favorite venue of family outings and corporate conventions. With the help of her now grown-up children,she oversees with ease her businesses hopping from her hardwares to her resort. With the loan she availed from Enterprise Bank, the construction of her resort expansion is sure to be completed on time.

Major improvements were also introduced in the management information system to take into account the need to improve the integrity of data, security and disaster recovery program.

Other business lines also scored well during the year. Tie-ups with Western Union, Smart Money, Globe GCash and other partners for remittance and bills payment transactions while providing income fees brought positive additions to the bank's customer based.

Tie-ups with partners for remittance and bills payment transactions brought positive additions to the bank's services.

To finance growth, the bank embarked on expansion of its deposit operations. It introduced new products and services and upgraded branch and extension offices, professionalized services and enriched customer service orientation at the frontline to improve overall customer service. Deposits at the end of 2011 reached P509.8 million posting an increase of 5% over the prior year.

Financial Performance

Total assets had a respectable growth of 21% mainly due to growth in earning assets. The loans turn-over and the larger customer base gave a boost in gross revenues by 4% while enabling the bank to accommodate lower price demand from the market. It was a tough challenge to respond but Management had to consider stiffer playing field on the small business segment and pursued delighting customers without hurting top figures.

Still in a cost saving mode, the bank posted 62% operating cost ratio that inched less than a percent from 2010, a level way below that of the industry. Looking forward to cautious spending in the years ahead, coupled with improved business turn-over, healthier net margins are expected in the next operating cycles.

Prudent investments in fixed assets, largely narrowed into new technology acquisition, kept the bank's risk concentration balanced. More efficient operations, faster service delivery, improved reporting compliance, and integrated customer convergence are among the future gains of these outlays.

In 2011, Gensan and Koronadal Branches accounted for the 26% or Php 76 million of the total SBL portfolio. Significantly, Koronadal Branch made a big leap in SBL portfolio from just Php 3.7 million in 2010.

OPERATIONAL HIGHLIGHTS

Matias Esmiringa is a hands-on businessman. Despite his very young age, he efficiently manages their family business well. His pleasant attitude endears him to his customers as well as his workers. His stores sell agricultural machineries and fertilizers.

Allan Graza personally oversees their tricycle and motor parts store known for its cheaper prices and quality service. He availed a loan from the Enterprise Bank for additional business capital. Aside from his technical skills in motor trades, Allan has another ace on his sleeve why his business continues to florish. His wife **Maria Elena** who is a financial guru and entrepreneur helps him run their stores. "We also teach our children the tricks of this trade at early an age. After all, we will leave these businesses to them to manage when we grow old" Allan said.

Amid growth in the topline, the bank had a conservative stance on risk provisions. In 2011 it provided 25% more than what it did in 2010. It sealed the bank's 2011 outcome.

We believed we ended 2011 and entered 2012 with a strong balance sheet, a clear roadmap of where we are heading, well-defined growth drivers, and a cohesive team on the lookout for more business opportunities.

The Big Leap Forward
on state of the art technology

Nearly three years ago, EBI at the helm of professionalizing its services was already ripe to take a windfall on Information Technology. Supporting the key drivers to business growth, the IT platform focused on making technology frame jobs and processes that drive people to perform and to service clients effectively.

More than saying goodbye to long hours of work, the bank's objective is to gain a clear advantage over its competitors in making quick and sound decisions as a result of drawing reliable information at the earliest possible time. The interconnection and 24/7 data communication of Enterprise Bank offices anywhere in Mindanao and the Visayas was just amazing,and itself, was an IT revolution from within the organization!

EBI made certain that the "big change" entailing substantial investments in IT infrastructure was optimized. While installing experienced professionals to handle information and communications technology functions, it forged partnerships with IBM and Dell, considered giants in IT solutions to strongly

The DELL server and hub located at Davao City Office are manned 24/7 by proficient IT personnel .






In microfinance, combined portfolio of both branches amounted to Php34 million or 13% of the overall bank portfolio of Php264 million. Gensan had Php13 million while Koronadal had Php 21million from Php 5 million in 2010. In terms of number of microfinance borrowers, Gensan Branch had been serving 3,036 clients while Koronadal Branch had 3,263 by year-end of 2011.

OPERATIONAL HIGHLIGHTS

A self made man. This is what best describe **Alex Manganaan** who is doing very well buying and selling corns. He started as the "dicer" or frontman of his uncle who was also into buying and selling corn. After learning the secrets of the trade, Alex went solo and further ventured into corn financing and trading. This guy who is a gradute of a nautical course believes that it is best to invest in real estate or land. "Everything depreciates except the value of land," he enthused.

Marcelino Dian is a very simple man who is into trucking and copra trading. "Copra trading is brisk nowadays as compared four years ago," he shares. He reports to his office everyday to personally oversee his business. He is happier and more confident now because his two daughters help him and his wife organize the recording of their sales.

In partnership with BANCNET, Enterprise Bank now operates ATMs in Tandag, Lianga, Barobo and Hinatuan in Surigao del Sur and in the Municipality of Cateel, Davao Oriental. In the photo, Enterprise Bank COO Kent A. Young and President Atty. Ronald E. Alvizo joined BancNet executives during the MOA signing at the BancNet Head Office in Manila.

back its process innovations, inter/intra office communications, and data processing and security.

This capability and capacity tandem boost EBI's ability to carry on daily operations, observe regulatory compliance, plan for long term development, increase operational efficiency and serving customers at the right time and at the right place.

To date, EBI prided itself with a co-located primary Data Center at the PLDT site. Equipped with multiple levels of redundancies and firewall systems within and in an equally robust Disaster Recovery Center, and partnering with a roster of big TELCOs PLDT, Bayantel, Globe and Smart Telecom, the bank does its job in upholding clients' interests by capitalizing in worthwhile investments.

Evidently, the big change is now being felt in all of Enterprise Bank's operating units with such IT revolution affording faster transactions, improved productivity amongst the bank's employees and a better personalized relationship with its clients. EBI now has started to offer timely services such as e-Bilis as its remittance program. Likewise, ATM services are already accessible to people in areas where other banks dared not go.

There will be more to see and experience at EBI in the near future. With the aid of cutting-edge technology, the bank will surprise its clients with more affordable products and services that are anchored on sophistication at the bank's best chosen avenue.

SOCCSKSARGEN stands for South Cotabato, Sultan Kudarat, Sarangani Province and General Santos City. This region is the country's fastest growing development clusters and a predominantly agricultural province, dedicated for livestock and agricultural purposes. About 57.4% of its total land area is ideal for agricultural industries best for rice, corn, pineapple, asparagus, coconut, banana, cotton, fruit trees, mango and fiber crops.

They started their business with an old ricemill to process the best rice variety in the area. It was not for long that the people noticed their quality rice and demand increased many folds. In partnership with the Enterprise Bank, **Laureana and Dominador Castillanes** were able to construct a state of the art ricemill which can produce a total of 70 sacks of rice per hour. According to Laureana Castillanes, even the coarse rice husks have its uses. They usually deliver sacks of coarse rice husks to traders who use them as "uling" or charcoal.

They work as a team. They sing and chatter while they harvest. They share the chores and finish harvesting on schedule in preparation for the next season which is the plowing of the rice paddies for the planting season. Watching them harvesting and threshing rice is like watching a symphony of musicians perfoming a synchronized act at the cadence of a conductor. **These farmers are clients from Lambayong, Sultan Kudarat** who are members of Enfalac Center, a microfinance cluster sustained by Enterprise Bank-Koronadal Branch.

PRODUCTS AND SERVICES

Other remittance products:

- Western Union, BDO Remit, Money Gram, Globe GCash Globe GCash Remit I-Remit Global Remittance, ,
- Bills payment for SSS and Philhealth, Globe Lines, Globe Plans and Sky Cable
- Online request for NSO certificates and LTO CTPL Registration via ICONNECT

BRANCH ACADEMY

...is all about improving practices to standardize and simplify work procedures while keeping internal control in place, enhance customer service and at the same time, to recognize housekeeping, record keeping and reporting.

Enterprise Bank's growing by triple in recent years had been a combination of an interest to provide more access to finance to underserved communities and a pursuit to make a difference in the lives of small scale entrepreneurs.

A more than hundred patrons trooping to the bank each the year has been a sight and a source of delight to every committed human resource working for Enterprise Bank. This experience also thrilled the bank's foreign and domestic partners in enterprise development whose principles harmonize with EBI's goals. Valuing these realities prompted the bank to go in for more innovations during the past two years by investing into technology advancements and human resource skills building to create a total service package for its increasing customers.

Therefore, along with the physical growth of the institution, the bank recognized the pressing need to put in the right infrastructure, suitable delivery systems and apt manpower personnel that carries the appropriate banking products services down to its clients. With this mindset, Enterprise Bank established the Branch Academy or notably called BrAc as one of the leads in people skills development and a demonstration of what it is to run a branch or service office.

BrAc showcases an ideal branch that has the fit human, financial and physical resources providing quality service to clients or customers. Among the best features exemplified are the standard and simplified work procedures, stronger internal control, personalized and faster customer servicing, proper housekeeping and finer branch processes on record keeping and reporting. It also served as the best avenue for pilot testing new product/service offers prior to full launch.

Yet, an ideal branch operation is not the sole stamp provided for by BrAc. It is a home for cost-effective training of branch personnel and for skills re-tooling in many areas of branch operations with the goal to improve staff competency. Both new and existing officers and staff of the bank benefits from this set up of being put "On-the-Job" to develop proficiency in branch servicing prior to deployment or re-assignment.

As BrAc initiatives progressed during the year, changes felt in the ground became evident in the way branches managed their operations. In the long run, the bank would like to experience service performance improvements, increased operational efficiency, better implementation of policies and procedures, properly facilitated personnel movement, and increased employee satisfaction as these developments sprint in tandem with the bank's image building program being requisites to Thrift Banking, a next level up for EBI.

By end of 2011, BrAc had 18 Officers retrained in the various areas of tellering, sight checking, custodianship, documentation, reviewing and balancing transactions, control and compliance, office upkeep, and people administration. Management is proud to see the Institute produced its first graduates, refreshed of the prescribed branch banking practices, and carried tools to make the proper intervention as they went back to their respective offices.

Ultimately, with the institutionalization of BrAc, Management strongly supports the idea that fostering employees' personal and professional growth helps strengthen sense of commitment and dedication to work. And with the continued support to the activities of BrAc, now and in the future, it carries with it Management's dream of making EBI become one of the best local banks in customer service.

BOARD OF DIRECTORS

Atty. Ronald E. Alvizo

Chairman of the Board
President/CEO

Atty. Ronald Alvizo has 14 years experience in microfinance and rural banking operations. His expertise lies in the areas of rural financing, product development and implementation, corporate planning and banking and corporate law.

He studied Bachelor of Laws at the Ateneo de Davao University and earned his Masters Degree in Entrepreneurship at the Asian Institute of Management.

He was one of the pioneering organizers of the Mindanao Microfinance Council, an organization of microfinance institutions working towards the professionalization of the industry. He was also a director of the Rural Bank Association of the Philippines.

One of Atty. Ronald Alvizo's special projects for 2011 is financial inclusion or the making banking products and services available to clients in the countrysides not usually served by formal financial institutions. To him, EBI's contribution to nation building is by building vibrant communities one enterprise at a time.

Ignacito U. Alvizo

Director
EBI Founder
Chairman, Asset and Liability Committee
Chairman, Kamayo Mindanao Foundation, Inc.

Ignacito Alvizo's expertise in the field of microfinance is recognized by microfinance communities in the Philippines and abroad. He is a Certified Public Accountant who has an extensive working experience as a consultant in microfinance and SME development in countries in Africa, Middle East and Asia.

He graduated from the University of San Carlos with a degree in Commerce and obtained a diploma in Small Enterprise Promotion with distinction from Delft University Research Institute for Management Science in Holland. He was, for two terms, the President of Mindanao Microfinance Council.

All his experiences and knowledge became tangible when he transformed Enterprise Bank from a single unit rural bank in Surigao del Sur into an emerging thrift bank that has gained its own niche in MSME financing in Mindanao.

Aside from being a member of the Board of EBI, part of his time is spent on the bank's social corporate arm, the Kamayo Mindanao Foundation that is responsible for delivering the non-financial services to EBI's clients.

Atty. Randy E. Alvizo

Director
Corporate Secretary

Atty. Randy E. Alvizo is a practicing lawyer specializing in court pleadings and maritime laws. He is a partner at the Alvizo Law Office that handles the legal concerns of the bank. He finished his degree in Political Science from the University of the Philippines – Cebu and earned his Bachelor of Laws at the Ateneo de Davao University.

Before going full-time with his private practice, Atty. Alvizo also served as EBI's Human Resources Head, and Legal Officer.

He was among the pioneering officers who helped laid the foundation on which a stronger, more stable and fast-growing EBI stands today.

Dr. Carla Divina S. Virtudazo

Director
Chairperson, Human Resource and Corporate Governance Committees

Dr. Carla Divina S. Virtudazo is the human resource and organizational development expert of the Board. She finished her doctorate degree in Business Education as well as masters degrees in Community Development and Industrial and Organizational Psychology at the University of the Philippines-Diliman and Ateneo de Manila University, respectively.

She started her career in microfinance and SME development while working for institutions such as the Department of Trade and Industry and the University of the Philippines Institute for Small-Scale Industries. She is now an active consultant in Asia, Pacific, Africa and the Middle East for projects in micro and small business development, technical-vocational education and training, alternative learning systems, and customized marketing research.

As chairperson of the Human Resource Committee of the Board, she mentors the Human Resource Department of Enterprise Bank in strategy and implementation of capacity building programs as well as in transactional human resource management.

Maximino A. Salang, Jr.

Director
Chairman, Audit and Risk, and Credit Committees

Maximino A. Salang, Jr. is a businessman in Davao City engaged in construction, heavy equipment rental, banana plantation export production and container yard (shipping van) operations. His expertise lies in marketing and business management. All these make him an ideal head of the Credit Committee where he balances risks and potentials of the clients' businesses.

He has been a member of the board since 2007. He finished his degree in Bachelor of Science in Business Administration from Southwestern University in Cebu.

SENIOR MANAGEMENT

Atty. Ronald E. Alvizo
President/CEO

Jennifer D. Suelto
Chief Finance Officer

Kent Patrick A. Young
Chief Operations Officer

Dorefel D. Barit
Credit Review and Risk Management Head

Nelson P. Casiano
Human Resources Management and Development Head

CORPORATE SOCIAL RESPOSIBILITY

KMFI

Kamayo Mindanao Foundation, Inc.

Beyond the numbers and statistics we commit ourselves to putting a human face to development through consistent excellence of our performance aspiring to be worthy representatives of the best values and skills of a development worker.

VISION
Communities will thrive and prosper in an environment where the land is productive, micro-enterprises flourish, and families are economically self-sufficient and self-reliant.

MISSION
We commit to assist poor families become self sufficient and self-reliant through enterprise development. We value our personnel by providing them opportunities to grow their full potential.

CORE VALUES
Professionalism: With efficiency and objectivity we work to help through justice and fairness, keeping the essence of "doing-it-now."

Active Involvement
We work hard knowing that our passion and dedication best serve our clients – this is our motivation.

Compassion
A love for God, people, and service drives us to excellence.

Trustworthy
A character of integrity, honesty, and honor is our standard.

Our Social Compass
Putting a human face to development

To distinguish KMFI among other NGO's engaged in microfinance, it has set its social compass that serves as guide to both its governing body and staff. Whatever program KMFI should pursue, it shall be defined by what human development means in the truest sense of the words with three objectives: a) it should be felt by its beneficiaries, demonstrated by how empowered they are, b) that they become self-sufficient instead of worrying where to get their food the next day c) self-reliant instead relying from government's assistance and other humanitarian aid.

KMFI became a certified donee institution

KMFI was awarded by Philippine Council for NGO Certification (PCNC) the three year certification as a donee institution after its evaluation in 2009. The certification was a product of its quest to transform KMFI into an organization worthy to the trust of its stakeholders. Consequently, KMFI was invited to attend the training for volunteer evaluators for PCNC.

By end of 2008, KMFI in partnership with Enterprise Bank launched the Kalisod Mo-Tabangan Ko (KMTK) program. The objective is to strengthen the social component as an integral part of micro-lending. The development program concept underwent various transformations in itself in its two years of implementation of what it has come to be known as program H.O.P.E. or (Holistic Opportunities toward People Empowerment)

Social Enterprises

KMFI, wanting to remain true to its mission, developed its own enterprises to support its social programs. Apart from embarking on developing program proposals for grants, the foundation believed in social enterprise development as its primary vessel for sustainability and self-sufficiency.

HEALTH PLUS: An Epitome of Social EnterpriseDevelopment

KMFI collaborated with the National Pharmaceutical Foundation (NPF) and became a social franchisee in Davao region in 2007. The model is a double bottom line approach to which the foundation wants to respond to health needs of poor communities by

KMFI Training and Convention Center

Center for malnourished children,K-Disenyo and the K- Convenience Store

bringing in affordable and good quality medicines and at the same time ensure sustainability by ensuring that its partner organizations (POs, associations, other NGOs) are managing their respective enterprise as designed by NPF.

HP serving the microfinance clients

KMFI has invested PhP 67,500.00 to equip its 20 Development Officers with sphygmomanometers and blood sugar testing kits.

There were 3,231 clients who received the free BP services or 10% from the client population. The blood sugar testing has served 223 or 0.70 %. The minimal outreach is due to the high cost of test strips.

The research and development

The research and development department is being developed as an income generating department providingservice not only to EBI but to other MFIs in the future. This is to further ensure KMFI's financial independence and sustainability.

K-Convenience Store

It remains to be the leading social enterprise of KMFI that best serve the needs of micro-entrepreneurs in Surigao del Sur particularly nearby communities of Lianga. Instead of traveling to San Francisco Agusan del Sur to replenish their stocks, they can save fare and food expenses by buying their needs from the store. Prices are made reasonable to maximize their profit. The store also serves the need of both KMFI and EBI employees

Training and Convention Center

It is still the venue for KMFI and EBI personnel trainings and other events. EBI conferences, seminar and workshops and other training events were also held in the center. Whenever available, its services are offered to other organizations' training activities, gatherings and other events while the K-Inn and suites provides accommodation, a good vacation spot as it boasts a beach line.

K-Disenyo

The shop continues to provide tailoring service to locals of Lianga and to EBI. With its stable income from its sale performance, the garment shop is able to support a college scholar enrolled at Surigao del Sur Polytechnic College (SSPSC).

Children's Home (Center for malnourished children)

If the social enterprises are set to ensure sustainability of the foundation, the children's home defines the character of KMFI, helping vulnerable children and ease the pains of hunger and malnutrition.

KMFI had its humble beginnings in 1997 as a feeding program for malnourished children of Enterprise Bank, Inc. Its service has expanded to accommodate malnourished children from different municipalities of Surigao del Sur.

The children's home is a testament to the commitment of both the foundation and the Dominican Sisters of the Holy Rosary of Pompei to save the children from the agony of hunger and death due to malnutrition.

Still in partnership with the Dominican Sisters of the Holy Rosary of Pompei, the day care center which was established in 2005 at MEDEVCO compound has been expanded in 2007 and was named Our Lady of Pompei.

In dedication to the service of improving the lives of children it was agreed to put up a school near the children's home. The groundbreaking for the construction was done last August 15, 2009 and the school was opened to the public in June, 2010. There were 33 school children served in the school year of 2010.

PARTNERS & FUNDERS

Bangko Sentral ng Pilipinas (BSP) is deeply involved in various projects and activities to support the economic and social development objectives of the government through advocacy programs in microfinance, financial education and consumer protection, economic information, and overseas Filipinos' remittances environment.

The Land Bank of the Philippines is a government financial institution that strikes a balance in fulfilling its social mandate of promoting countryside development while remaining financially viable. This dual function makes LANDBANK unique. The profits derived from its commercial banking operations are used to finance the Bank's developmental programs and initiatives.

The People's Credit and Finance Corporation (PCFC) is the lead government entity specifically tasked to mobilize resources for microfinance services for the exclusive use of the poor. PCFC provides the poor access to credit and other microfinance services to uplift their economic status through wholesale of short, medium & long term investment loans to accredited Microfinance Institutions (MFIs).

UCPB Savings Bank, more popularly known by its initials, UCPB, or by its old name, Cocobank, is one of the largest banks in the Philippines, ranking within the top twenty banks in terms of assets. The bank, owing to its name, caters heavily to coconut farmers, but also serves a wide-ranging clientele.

The National Livelihood Development Corporation (NLDC) actively pursues a package of livelihood and enterprise development programs and interventions to hasten socio-economic growth in the countryside especially in the hard-to-reach agrarian reform communities (ARC). The NLDC serves sectors at the bottom rung of the economic ladder by making financing available to them and also by engaging them in capability-building programs.

Development Bank of the Philippines is the country's most progressive development banking institution. Through the years, DBP has been a key player in nation-building by assisting critical industries and sectors, promoting entrepreneurship particularly in the countryside, helping build more productive communities, advancing environmental protection and contributing to the improvement of lives of Filipino across the nation.

Bank of the Philippine Islands' corporate mission is to be the leading private financial institution in the Philippines in terms of professional competence, service quality, responsible corporate citizenry, and overall growth and stability; and to be an established ASEAN financial institution with a creditable worldwide outreach.

Small Business Corporation envisions to become the leader in small enterprise development financing and small credit delivery systems nationwide. The SBC has focused on developing an appropriate mix of financing products that are responsive to the needs of SMEs in the country.

UCPB-CIIF Finance and Development Corporation (COCOFINANCE) partners with institutions that are willing to support livelihood endeavors of the coconut farmers and farm workers through provision of accessible credit and other support services, in an effort to achieve its mandate of transforming coconut communities into productive and self-sustaining villages in a rapid and sustainable manner.

Oikocredit is one of the world's largest sources of private funding to the microfinance sector. It also provides credit to trade cooperatives, fair trade organizations and small-to-medium enterprises (SMEs) in the developing world.

BPI Globe Banko Inc. is the first mobile microfinance-focused bank hinged on Ayala Group's triple Corporate Social Responsibility focus on education, environment and entrepreneurship.

Philippine Business for Social Progress (PBSP) is committed to poverty reduction by promoting business sector leadership and commitment to programs that lead to self-reliance.

OXFAM Novib is a leading international NGO with a worldwide reputation for excellence in the delivery of aid and development work. Its purpose is to work with others to overcome poverty and suffering.

PlaNis provides investment advisory services to social investment funds that invest in microfinance. Its services include advising funds on sourcing, conducting due diligence and performing risk assessments on microfinance institutions.

Stichting Triodos Doen funds microfinance institutions because they help to build inclusive financial sectors, where the majority of people have access to financial services, leading to a sustainable basis for balanced social and economic development.

ENTERPRISE Bank FINANCIAL STATEMENTS

Report of Independent Auditors

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T+63 2 886 5511
F +63 2 886 5506; +63 2

www.punongbayan-araullo.com

The Board of Directors
Enterprise Bank, Inc. (A Rural Bank)
Poblacion Lianga, Surigao del Sur

Report on the Financial Statements

We have audited the accompanying financial statements of Enterprise Bank, Inc. (a Rural Bank), which comprise the statement of financial position as at December 31, 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the 2011 financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Enterprise Bank, Inc. (a Rural Bank) as at December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The financial statements of Enterprise Bank, Inc. (a Rural Bank) for the year ended December 31, 2010 and 2009 were audited by other auditors whose report dated March 31, 2011, expressed an unqualified opinion on those statements prior to restatements. We also reviewed the adjustments that were applied to restate the 2010 and 2009 financial statements. In our opinion, such adjustments as described in Note 20 are appropriate and have been properly applied to the 2010 financial statements.

Report on Other Legal and Regulatory Requirements

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2011 required by the Bureau of Internal Revenue as disclosed in Note 28 to the financial statements is presented for the purposes of additional analysis and is not a required part of the basic fundamental statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By. Ramilito L. Nañola
Partner
CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 3174907, January 2, 3012, Makati City
SEC Group A Accreditation
Partner - No.0395 AR.1 (until Jan.6 2013)
Firm - No. 0002-FR-3 (until January 18, 2015)
BIR AN 08002511-19-2009 (until Sept. 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (Until Dec. 31, 2012)

April 2, 2012

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011
(With Comparative Figures for 2010 and 2009)
(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - see Notes 2 and 20)	2009 (As Restated - see Note 2)
RESOURCES				
CASH AND OTHER CASH ITEMS	6	P **24,655,352**	P 19,240,103	P 18,904,021
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**17,685,225**	12,481,075	8,779,338
DUE FROM OTHER BANKS	6	**194,452,841**	167,246,099	151,516,798
HELD-TO-MATURITY INVESTMENTS	9	**542,408**	20,892,570	21,549,331
LOANS AND RECEIVABLES - Net	10	**1,414,591,728**	1,162,682,908	1,033,317,788
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**69,348,043**	58,763,879	61,802,669
INVESTMENT PROPERTIES - Net	12	**11,672,221**	12,873,029	13,215,635
DEFERRED TAX ASSETS - Net	24	**21,004,659**	16,883,249	8,642,800
OTHER RESOURCES	13	**40,451,415**	16,339,597	15,988,660
TOTAL RESOURCES		P **1,794,403,892**	1,487,402,509	1,333,717,040
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES	15	P 512,046,852	P 488,008,638	P 402,488,473
BILLS PAYABLE	16	988,713,894	703,568,663	684,846,262
UNSECURED SUBORDINATED DEBT	17	50,000,000	50,000,000	50,000,000
INCOME TAX PAYABLE		4,797,519	6,308,145	10,241,945
ACCRUED EXPENSES AND OTHER LIABILITIES	18	76,984,577	89,539,213	53,333,168
Total Liabilities		1,632,542,842	1,337,424,659	1,200,909,848
EQUITY		161,861,050	149,977,851	132,807,192
TOTAL LIABILITIES AND EQUITY		P 1,794,403,892	P 1,487,402,509	P 1,333,717,040

See Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31,2011
(With Comparative Figures for that Year Ended December 31, 2010)
(Amounts in Philippine Pesos)

	Notes	2011	2011 (As Restated see Note 20)
INTEREST INCOME ON			
Loans and receivables		P 305,214,610	P 290,190,618
Deposits with other banks		2,936,905	1,772,657
Investments		100,521	1,298,225
Others		1,260,093	
		309,512,129	293,261,500
INTEREST EXPENSE ON			
Bills payable		74,182,216	72,032,468
Deposit liabilities		19,773,666	20,099,471
Others		91,653	442,464
		94,047,535	92,574,403
NET INTEREST PROFIT		215,464,594	200,687,097
IMPAIRMENT LOSSES	14	40,584,996	32,366,753
NET INTEREST PROFIT AFTER IMPAIRMENT LOSSES		174,879,598	168,320,344
OTHER INCOME			
Service charges, fees and commissions		109,669,016	126,701,349
Others	22	21,798,304	17,328,327
		131,467,320	144,088,676
OTHER EXPENSES			
Compensation and employee benefits	23	119,034,749	119,801,853
Taxes and Licenses	28	34,839,340	29,578,900
Depreciation and amortization	11	15,549,239	16,008,659
Transportation and travel		15,131,950	19,241,775
Fees and commission		13,454,169	6,535,820
Security, messengerial and janitorial services		11,338,011	10,822,624
Rent		1,160,727	8,980,519
Fuel and lubricants		8,028,091	6,785,536
Stationary and supplies		6,434,975	6,948,468
Power, light and water		5,327,723	5,116,978
Communications, telephone and telegraph		5,186,138	4,226,628
Repair and maintenance		4,727,155	3,617,710
Representation and entertainment		3,583,585	3,763,259
Information technology		3,448,419	1,662,376
Insurance		3,183,425	2,631,846
Professional fees		2,431,181	1,918,325
Finance charges		1,662,545	379,728
Others		11,399,818	17,993,469
		275,921,240	266,014,533
PROFIT BEFORE TAX		30,425,677	46,394,448
TAX EXPENSE	24	9,567,103	5,750,020
NET PROFIT	25	20,858,574	40,644,468
OTHER COMPREHENSIVE INCOME			
TOTAL COMPREHENSIVE INCOME		P 20,858,574	P 40,644,468
Basic Earnings Per Share:			
Basic		P 46.86	93.27
Diluted		P 41.02	79.95

See Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Figures for the Year Ended December 31, 2010)
(Amounts in Philippine Pesos)

	Notes	2011	2010 As Restated See Note 20)
PREFERRED STOCK	19	P 3,500,000	P 3,500,000
COMMON STOCK	19		
Balance at beginning of year		42,619,800	42,619,800
Issuance during the year		10,800	
Balance at end of year		42,630,600	42,619,800
DEPOSITS ON FUTURE STOCKS SUBSCRIPTION	19		
Balance at beginning of year			
Addition during the year		1,013,825	-
Balance at end of year		1,013,825	-
SURPLUS RESERVE	19		
Balance at beginning of year		11,446,973	11,446,973
Transfer from surplus free		85,073,027	-
Balance at end of year		96,520,000	11,446,973
SURPLUS FREE			
Balance at beginning of year	19		
As previously reported		78,470,904	75,240,419
Prior period adjustments	21	13,940,174	17,028,809)
As restated		92,411,078	58,211,610
Transfer to surplus reserve		(85,073,027)	-
Net profit		20,858,574	40,644,468
Cash dividend		10,000,000)	(6,445,000)
Balance at end of year		18,196,625	92,411,078
TOTAL EQUITY		P 161,861,050	P 149,977,851

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011
(With Comparative Figures for the Year Ended December 31, 2010)
(Amounts in Philippine Pesos)

	Notes	2011	2010 (As Restated - See Note 23
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 30,425,677	P 46,394,488
Adjustments for			
Impairment losses	11	40,584,996	32,366,753
Depreciation and amortization `	11	15,549,239	16,008,659
Income from assets sold		(677,826)	-
Operating profit before changes in resources and liabilities		85,882,086	94,769,900
Increase in loans and receivables		292,493,816)	(163,362,149)
Increase in other resources		24,387,349)	2,377,032)
Increase in deposit liabilities		24,038,219	85,520,163
Increase (decrease) in accrued expenses and other liabilities		12,554,637)	18,313,779
Cash generated from (used in) operations		219,515,497)	32,864,661
Cash paid for taxes		15,199,141)	(13,741,834)
Net Cash From (Used In) Operating Activities		234,714,638	19,122,827
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions in bank premises, furniture's, fixtures and equipment	11	26,182,953)	(12,969,869)
Proceeds from retirement of held-to-maturity investments		20,350,161	656,761
Proceeds from sale of investment properties	12	1,793,057	680,000
Proceeds from sale of transportation equipment		410,658	-
Net Cash Used in Investing Activities		3,629,077)	(11,633,108)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bills payable		1,214,115,639	18,722,401
Repayments of bills payable		928,970,408)	
Cash dividends		10,000,000)	(6,445,000)
Proceeds received from deposits on future stocks subscription		1,013,825	-
Proceeds from issuance of capital stock	18	10,800	-
Net Cash From Financing Activities		276,169,856	12,277,401
NET INCREASE IN CASH AND CASH EQUIVALENTS		37,826,141	19,767,120
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		19,240,103	18,904,021
Due from Bangko Sentral ng Pilipinas		12,481,075	8,779,338
Due from other banks	8	167,246,099	151,516,798
	6	198,967,277	179,200,157
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		24,655,352	19,240,103
Due from Bangko Sentral ng Pilipinas		17,685,225	12,481,075
Due from other banks	8	194,452,841	167,246,099
	6	**P 236,793,418**	**P 198,967,277**

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011
(With Comparative Figures for December 31, 2010 and 2009)
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

The Enterprise Bank, Inc. (A Rural Bank) was organized on May 10, 1976 to engage and carry on the business of a rural bank. The Bank received its Certificate of Authority to Operate as a rural bank on May 7, 1976, from then Central Bank of the Philippines, now the Bangko Sentral ng Pilipinas (BSP). It started its normal operations on May 10, 1976.

The registered office and principal place of business of the Bank is located at Poblacion Lianga, Surigao del Sur. The Bank operates within the islands of Mindanao and Visayas, Philippines and maintains 21 branches.

The financial statements of the Bank for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Bank's President on April 2, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards
The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standars (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements
The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements.* The Bank presents all items of income and expenses in a single statement of comprehensive income.Two comparative periods are presented for the statement of financial position when the Bank applies an accounting policy retrospectively, or makes a retrospective restatement of items in its financial statements (see Note 20), or reclassifies items in the financial statements.

To conform with the 2011 financial statements presentation and classification, other receivables amounting to P4.9 million and P3.9 million as of December 31, 2010 and 2009, respectively, were reclassified as part of Loans and Receivables account which were previously presented as Other Resources account in the statement of financial position. Moreover, preferred stock amounting to P4.7 million as of December 31, 2010 and 2009, representing government held preferred shares covered by a Memorandum of Agreement with Land Bank of the Philippines and Development Bank of the Philippines, was reclassified to liability which was previously presented as capital stock under equity section in the statement of financial position (see Note 18).

(c) Functional and Presentation Currency
These financial statements are presented in Philippines pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2011 that are Relevant to the Bank

In 2011, the Bank adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after July 1, 2010 or January 1, 2011:

PAS 24 (Amendment) :	:	Related Party Disclosures
Philippine Interpretations International Financial Reporting Interpretation Committee (IFRIC) 14 (Amendment)	:	Prepayment of Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

Discussed below and in the succeeding page are relevant information about these new and amended standards.

(i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any significant changes on the Bank's disclosures of related parties in its financial statements.

(ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, Employee Benefits, that are subject to a minimum funding requirement. The Bank does not usually make substantial advance contributions to its retirement fund, hence, the adoption of the revised standard has no material effect on its 2011 financial statements.

(iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39 *Financial Instruments: Recognition and Measurement,*

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management's adoption of the interpretation did not have a material effect on its financial statements as the Bank did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the 2010 *Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Bank's financial statements but which did not have any material impact on its financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present the breakdown of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Bank has no other comprehensive income, hence, the amendment has no significant impact in the Bank's financial statements.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. This amendment has no significant effect on the financial statements since the Bank already provides adequate information in its financial statements in compliance with the disclosure requirements.

(b) Effective in 2011 that are not Relevant to the Bank

The following amendments and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2011 but are not relevant to the Bank's financial statements.

PAS 27	(Amendment)	:	Consolidated and Separate Financial Statements
PAS 32	(Amendment)	:	Financial Instruments: Presentation Classification of Rights Issues
PAS 34	(Amendment)	:	Interim Financial Reporting
PFRS 1	(Amendment)	:	First Time Adoption of PFRS
PFRS 3	(Amendment)	:	Business Combinations
IFRIC 13	(Amendment)	:	Customer Loyalty Programmes - Fair Value Awards Credits

(c) Effective Subsequent to 2011 but not Adopted Early

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Bank will apply in accordance with their transitional provisions, to be relevant to its financial statements.

(i) PFRS 7 (Amendment), ***Financial Instruments: Disclosures Transfer of FinancialAssets*** (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Bank does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Bank's disclosures in its financial statements.

(ii) PAS 12 (Amendment), Income Taxes Deferred Tax: ***Recovery of Underyling Assets*** (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, Investment Properyt, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standard Interpretation Committee (SIC) 21 Income Taxes Recovery of Revalued Non-Depreciable Assets, is accordingly withdrawn. This amendment is not expected to have a significant effect on the Bank's financial statements as significant portion of its investment property only includes parcels of land which is not covered by this amendment.

(iii) PAS I (Amendment), ***Financial Statements Presentation Presentation of Items of Other Comprehensive Income*** (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Bank's management expects that this will not affect the presentation of items in other comprehensive income since the Bank has no other comprehensive income.

(iv) PFRS 13, ***Fair V alue Measurement*** (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Bank is yet to assess the impact of this new standard.

(v) PAS 19 (Amendment), ***Employee Benefits*** (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them. Currently, the Bank is using the corridor approach and its unrecognized actuarial gains as of December 31, 2011 amounted to P9.8 million which will be retrospectively recognized as gains in other comprehensive income in 2013.

(vi) PFRS 9, ***Financial Instruments: Classification and Measurement*** (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured which at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangement, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Bank does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Bank and is committed to conduct a comprehensive study of the potential impact of this standard early in 2012 to assess the impact of all changes.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The categories of financial assets currently relevant to the Bank are only loans and receivables and HTM investments. A more detailed description is as follows.

(a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the entity provides money, goods or services directly to a debtor with no intention of trading the receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due From BSP, Due From Other Banks, Loans and Receivables - net and Restricted Time Deposit (presented as part of Other Resources in the statement of financial position). Cash and cash equivalents are defined as cash on hand, savings and demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. For purposes of presenting cash flows, cash equivalents include cash and other cash items and amounts due from BSP and other banks.

(b) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified as AFS financial assets.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired.
All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income and Impairment Losses in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred.

2.4 **Bank Premises, Furniture, Fixtures and Equipment**

Bank premises, furniture, fixtures and equipment are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	25 years
Furniture, fixtures and equipment	1-10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the terms of the related lease or the useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

The residual values and estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period. Fully-depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect for those assets.

An item of bank premises, furniture, fixtures and equipment including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 **Investment Properties**

Investment properties pertain to land held by the Bank for capital appreciation, rather than for administrative purposes or sale in the ordinary course of business. These are stated at cost less impairment losses.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

2.6 **Financial Liabilities**

Financial liabilities, which include deposit liabilities, bills payable, unsecured subordinated debt and accrued expenses and other liabilities, are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Interest Expense in the statement of comprehensive income.

Bills payable are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the year in which they arise.

Deposit liabilities, bills payable, unsecured subordinated debt and accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BSP for cash declaration and by the shareholders and BSP for stock declaration. Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.7 **Provisions and contingencies**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risk specific to the obligation. Provision are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 **Revenue and Expense Recognition**

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Bank for services rendered. Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Interest Revenue is recognized as the interest accrues taking into account the effective yield in the asset. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

(b) Service charges, fees and commissions Revenue is generally recognized when .the service has been provided.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

2.9 **Leases Bank as Lessee**

Leases which transfer to the Bank substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognized in profit or loss. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs, maintenance and insurance, are expensed as incurred.

2.10 **Foreign Currency Transactions**

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of profit or loss from operations.

2.11 **Impairment of Financial Assets**

The Bank assesses at the end of each reporting period whether there is an objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivable carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined undei the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for' obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectible, it is written off, against the related allowance for loan impairment. Such loans are written off after all the necessary procedures including approval from the management and the Board has been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as other income in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

2.12 **Impairment of Non-financial Assets**

The Bank's non-financial assets are subject to impairment testing. Individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.13 **Employee Benefits**

(a) Post-employment Benefits

Post-employment benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's post-employment defined benefit pension plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated every two years by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average emaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) Bonus Plans

The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

2.14 **Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.15 **Related Party Transactions**

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.16 **Equity**

Capital stock represents the nominal value of shares that have been issued.

Deposits on future stock subscriptions include all amounts received for future stock subscriptions.

Surplus reserves represents total amount of stock dividends declared by the Bank but not yet distributed.

Surplus includes all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.17 **Earnings Per Share**

Basic earnings per share is computed by dividing net profit by the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed by dividing net profit by the weighted average number of outstanding and dilutive potential common shares. Both basic and dilutive earnings per share amounts are computed after giving retroactive effect to stock dividends declared during the current year, if any.

2.18 **Events after the Reporting Period**

Any post-year-end event that provides additional information about the Bank's position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may likely differ from these estimates.

3.1 **Critical ManagementJudgments m Applying Accounting Policies**

In the process of applying the Bank's accounting policies, management has made the judgments, as presented in the succeeding page, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would therefore be measured at fair value, not amortized cost.

(b) Distinction Between Investment Property and Owner-managed Property

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the supply of services.

Some properties comprise a portion that is held for capital appreciation and another portion that is held for administrative purposes.If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(c) Operating and Finance Leases

The Bank has entered into a lease agreement as a lessee. Critical judgment was exercised by management to distinguish the said agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.7 and relevant disclosures are presented in Note 27.

3.2 **Key Sources of Estimation Uncertainty**

Presented in the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next financial year.

(a) Useful Lives of Bank Premises, Furniture, Fixtures and Equipment

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of bank premises, furniture, fixtures and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2011 and 2010, there is no change in estimated useful lives of bank premises, furniture, fixtures and equipment during these years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(b) Allowance for Impairment of Loans and Receivables and HTM

Adequate amount of allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Bank evaluates the amount of allowance for impairment based on available facts and circumstances, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial asset are shown in Notes 10 and 14, respectively.

The carrying value of HTM is shown in Note 9. There is no impairment losses recognized in 2011 and 2010.

(c) Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets, which management assessed to be fully utilized within the next two to three years, as of December 31, 2011, 2010 and 2009 is disclosed in Note 24.

(d) Impairment of Non-financial Assets

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.12. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on non-financial assets were recognized in 2011 and 2010.

(e) Post-employment Defined Benefit

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movement in the estimated present value of retirement benefit obligation are presented in Note 23.2

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to financial instruments. The bank's financial assets and liabilities by category are summarized in Note 5. The main types of risks are market risk, credit risk and liquidity risk.

The Bank's risk management is coordinated in close cooperation with the Board of Directors, and focuses on actively securing the Bank's short- to medium term cash flows by minimizing the exposure to financial markets.

The Bank does not engage in trading of financial assets for speculative purposes not does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages.

4.1 **Market Risk**

The Bank is exposed to market risk through its use of financial instruments. The financial risks applicable to the Bank are described below.

(a) Foreign Currency Sensitivity

The Bank has little exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

(b) Interest Rate Sensitivity

The Bank has no significant exposure to interest rate sensitivity risks as it has no transactions with floating interest rates.

4.2 **Credit Risk**

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers and placing deposits. The Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of loans, collaterals are required to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

	Notes	**2011**	2010 (As Restated see Notes 2 and 20)	2009 (As Restated see Note 2)
Cash and cash equivalent	6	**P 236,793,418**	P 198,967,277	P 179,200,157
HTM investments	9	**542,408**	20,892,570	21,549,331
Loans and receivables - net	10	**1,414,591,728**	1,162,682,908	1,033,317,788
Restricted time deposit	13	**25,000,000**	-	-
		P 1,676,927,554	P1,382,542,755	P 1,234,067,276

The Bank continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls.

The Bank's management considers that all the above financial assets that are not impaired or past due for each reporting date are of good credit quality.

The table below shows the credit quality by class of financial assets as of December 31, 2011.

	Neither Past Due nor Specifically Impaired			**Past Due**	
	High Grade	Standard Grade	Substandard Grade	and Individually Impaired	Total
Cash and cash equivalents	P 236,793,418	P -	P -	P -	P 236,793,418
HTM investments	542,408		-	-	542,408
Loans and receivables	1,353,903,976	89,793,121		60,224,540	1,503,921,637
Restricted time deposit	25,000,000	-	-		25,000,000
	P 1,616,239,802	**P 89,793,121**	**P**	**P 60,224,540**	**P 1,766,257,463**

This compares with the credit quality by class of financial assets as of December 31, 2010.

	Neither Past Due nor Specifically Impaired			Past Due	
	High Grade	Standard Grade	Substandard Grade	and Individually Impaired	Total
Cash and cash equivalents	P 198,967,277	P -	P -	P -	P 198,967,277
HTM investments	20,892,570	-	-	-	20,892,570
Loans and receivables	P 1,212,030,054	7,698,978		36,616,902	1,223,345,934
	P 1,431,889,901	P 7,698,978	P	P 36,616,902	P 1,476,205,781

This compares with the credit quality by class of financial assets as of December 31, 2009.

	Neither Past Due nor Specifically Impaired			Past Due	
	High Grade	Standard Grade	Substandard Grade	and Individually Impaired	Total
Cash and cash equivalents	P 179,200,157	P	P	P	P 179,200,157
HTM investments	21,549,331	- -	-		21,549,331
Loans and receivables	1,052,703,753	3,972,548		25,553,643	1,082,229,944
	P 1,253,453,241	P 3,972,548	P	P 25,553,643	P 1,282,979,432

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

As part of Bank's policy, deposits with other banks are only maintained with reputable financial institutions. Cash in banks, which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 per depositor per banking institution, as provided for under Republic Act (RA) 9302, Charter of Philippine Deposit Insurance Corporation, are still subjected to credit risk.

(b) HTM Investments

No impairment loss has been recorded in relation to the bonds (see Note 9). No amounts in relation to the bonds are past due. The carrying amounts disclosed are the Bank's maximum possible credit risk exposure in relation to these instruments.

(c) Loans and Receivables net

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about borrower default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25% of its net worth.

In addition, the Bank has unimpaired loans and other receivables that are past due as at the reporting date. As of December 31, 2011, 2010 and 2009, the past due loans and receivables but not impaired amounted to P89,793,121, P7,698,9787 and P3,972,548 respectively, which are outstanding for less than one year.

4.3 Liquidity Risk Analysis

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analyses of the maturity groupings of resources and liabilities items as of December 31, 2011, 2010 and 2009, are presented below:

December 31, 2011

	One Year and Below	Over One Year to Five Years	Beyond Five Years	Total
Financial Resources	P 1,367,829,369	P 309,098,185	P -	P 1,676,927,555
Financial Liabilities	(1,299,910,068)	(224,265,831)	(83,648,674)	(1,611,324,574)
Positive (negative) gap	P 67,919,301	P 75,832,354	(P 83,648,674)	P 65,602,981

December 31, 2010 - as restated see Notes 2 and 20)

	One Year and Below	Over One Year to Five Years	Beyond Five Years	Total
Financial Resources	P 994,758,883	P 295,855,778	P 91,928,094	P 1,382,542,755
Financial Liabilities	(951,850,926)	(259,842,625)	(100,377,661)	(1,315,571,212)
Positive (negative) gap	P 42,907,957	36,013,153	(P 8,449,567)	P 66,971,543

December 31 2009 - (as restated see Note 2)

	One Year and Below	Over One Year to Five Years	Beyond Five Years	Total
Financial Resources	P 873,875,010	P 266,678,759	P 93,513,507	P 1,234,067,276
Financial Liabilities	(875,254,125)	(242,067,326)	(71,346,452)	(1,192,167,903)
Positive (negative) gap	(1,379,115)	P 24,611,433	P 22,167,055	P 41,899,373

The Bank honors all cash requirements on an ongoing basis. To address the negative gap, the management avoids raising funds above market rates or through the forced sale of assets.

The analyses of the contractual maturities of the Bank's financial liabilities as of December 31, 2011, December 31, 2010 and December 31, 2009, are presented below.

December 31, 2011

	Current Within 6 Months	Current 6 to 12 Months	Non-current 1to 5 Years
Deposit liabilities	P 297,525,940	P 114,177,855	P 112,545,711
Bills payable	505,759,540	377,806,039	92,762,306
Unsecured subordinated debt	2,412,500	2,412,500	69,300,000
Accrued expenses and other liabilities (except retirement benefits obligation)	5,317,521	51,746,306	
	P 811,015,501	P 546,142,700	P 274,608,017

December 31, 2010

	Current Within 6 Months	Current 6 to 12 Months	Non-current 1 to 5 Years
Deposit liabilities	P 240,733,005	P 207,371,866	P 63,426,172
Bills payable	293,832,512	170,485,787	226,169,114
Unsecured subordinated debt	2,412,500	2,412,500	74,125,000
Accrued expenses and other liabilities (except retirement benefits obligation)	16,876,332	53,617,579	
	P 553,854,349	P 433,887,732	P 363,720,286

December 31, 2009

	Current Within 6 Months	Current 6 to 12 Months	Non-current 1 to 5 Years
Deposit liabilities	P 184,406,560	P 207,371,866	P 24,292,831
Bills payable	293,832,512	170,485,787	214,683,633
Unsecured subordinated debt	2,412,500	2,412,500	78,950,000
Accrued expenses and other liabilities (except retirement benefits obligation)	6,882,006	4,451,162	
	P 487,533,578	P 424,721,315	P 317,926,4664

The contractual maturities of financial liabilities presented above reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of each reporting period.

5. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the statements of financial position are shown below.

		December 31, 2011		**December 31, 2010** (As Restated see Notes 2 and 20		December 31.2011 (As restated see Note 2)	
	Notes	**Carrying Values**	**Fair Values**	**Carrying Values**	**Fair Values**	**Carrying Values**	**Fair Values**
Financial Assets							
Cash and cash equivalents	6	P 236,793,418	P 236,793,418	P 198,967,277	P 198,967,277	179,200,157	P 179,200,157
HTM investments	9	542,408	542,408	20,892,570	20,892,570	21,549,331	21,549,331
Loans and recceivables-net	10	1,414,591,728	1,414,591,728	1,162,682,908	1,162,682,908	1,033,317,788	P 1,033,317,788
Restricted time deposit	13	25,000,000	25,000,000				
		P 1,676,927,555	P 1,676,927,555	P 1,382,542,755	P 1,382,542,755	P 1,234 ,067,276	P 1,234 ,067,276
Financial Liabilities							
Deposit liabilities	15	P 512,046,852	P 512,046,852	P 488,008,638	P 488,008,638	P402,488,475	P 402,488,475
Bills payable	16	988,713,894	988,713,894	703,568,663	703,568,663	684,846,262	684,846,262
Unsecured subordinated debt	17	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Accrued expenses and other liabilities (except retirement benefit obligation)	18	57,063,827	57,063,827	70,493,911	70,493,911	51,333,168	51,333,168
		P 1,607,824,573	P 1,607,824,573	P1,312,071,212	P 1,312,071,212	P1,188,667,905	P1,188,667,905

See Notes 2.3 and 2.6 for a description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 4.

6. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents as of December 31 is consist of the following:

	Notes	2011	2010	2009
Cash and other cash items		P 24,655,352	P 19,240,103	P 18,904,021
Due from BSP	7	17,685,225	12,481,075	8,779,338
Due from other banks	8	194,452,841	167,246,099	151,516,798
		P 236,793,418	P 198,967,277	P179,200,157

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements. The Bank has satisfactorily complied with the reserve requirements of the BSP.

8. DUE FROM OTHER BANKS

As of December 31, this account is consist of the following:

	Notes	2011	2010	2009
Savings and demand deposits		P 116,550,649	P 112,641,839	P 120,436,856
Time deposits		77,902,192	54,604,260	31,079,942
	6	P 194,452,841	P 167,246,099	P 151,516,798

Majority of the Bank's time deposits will mature within one year and bears interest ranging from 2.0% to 5.4 % per annum in 2011, 2.0% to 5.4% per annum in 2010 and 2.3% to 4.9% per annum in 2009. Savings deposits bear annual interest of 0.5% in all years presented.

The balance of time deposits as of December 31, 2011 did not include an amount of P25.0 million which is shown as part of Other Resources in the 2011 statement of financial position (see Note 13). Such amount is not available for the general use of the Bank in accordance with a restriction under a loan covenant (see Note 16).

9. HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments include the following as of December 31:

	2011	2010	2009
Land Bank of the Philippines (LBP)	P 388,188	P 363,693	P 1,167,226
Philippine National Bank (PNB)	154,220	20,528,877	20,382,105
	P 542,408	P 20,892,570	P 21,549,331

PNB investments include treasury bills with nominal interest rate of 4.30% per annum that matured in April 2011.

LBP investments represent ten-year bonds with interest rate based on 91-day treasury bill rates. These bonds will mature in various dates until 2016. The carrying amounts of these financial assets are reasonable approximation of their fair values (see Note 5).

10. LOANS AND RECEIVABLES

The details of loans and receivables as of December 31 are shown below:

	Note	2011	2010 (As Restated - see Notes 2and 20)	2009 (As Restated -
Loans:				
Commercial		**P 962,953,326**	P 831,755,892	P 206,353,753
Agricultural		**331,021,765**	205,162,382	444,259,031
Microfinance		**156,711,796**	166,992,086	427,695,106
		1,450,686,887	1,203,910,360	1,078,307,890
Allowance for impairment	14	**(59,936,374)**	(36,330,423)	(25,294,841)
Unearned discounts		**(29,105,369)**	(24,046,124)	(23,358,513)
		1,361,645,144	1,143,533,813	1,029,654,536
Other receivables:				
Accrued interest receivable		**42,454,008**	14,536,591	
Accounts receivable		**10,780,742**	4,898,983	3,922,054
		53,234,750	19,435,574	3,922,054
Allowance for impairment	14	**(288,166)**	(286,479)	(258,802)
		52,946,584	19,149,095	3,663,252
		P 1,414,591,728	P 1,162,682,908	P 1,033,317,788

Loans considered past due as of December 31, 2011, December 31, 2010 and December 31, 2009 amounted to P150,017,661, P44,315,880 and P29,526,191, respectively. Portion of the past due accounts and accounts under litigation are covered with real estate mortgages, which could be foreclosed to reduce possible losses from non-collection. Portion of outstanding loans as of December 31, 2011, 2010 and 2009 are assigned to secure various bills payable under the Bank's rediscounting and credit line with various funders (see Note 16).

Loans to directors, officers, stockholders and related interests (DOSR1) amounted to P200,000 as of December 31, 2010 and P5,853,508 as of December 31, 2009 representing 0.04% and 0.56%, respectively, of the total loan portfolio (see Note 21). Said DOSRI loans are all current and fully secured with collaterals. There are no outstanding loans to DOSRI as of December 31, 2011.

The net carrying value of loans and receivables is considered a reasonable approximation of fair value (see Note 5).

The breakdown of loans as to secured and unsecured follows:

	2011	2010	2009
Unsecured	**P 1,227,232,663**	P 1,071,781,441	P 916,442,190
Secured	**223,454,224**	132,128,919	161,865,700
	P 1,450,686,887	P 1,203,910,360	P 1,078,307,890

The breakdown of loans as to the Bank's credit accommodations by industry follows:

	2011	2010	2009
Wholesale and retail trade	**P 341,495,799**	P 298,928,361	P 206,353,753
Agricultural and forestry	**135,667,469**	308,783,409	444,259,031
Other community, social & personal service	**973,523,619**	596,198,590	427,695,106
	1,450,686,887	P 1,203,910,360	P1,078,307,890

The maturity profile of the Bank's loans follows:

	2011	2010	2009
One year and below	**P 748,349,492**	P 625,271,754	P 564,889,491
Over one year to five years	**679,226,148**	567,652,733	500,549,593
Beyond five years	**23,111,247**	10,985,873	12,868,806
	P 1,450,686,887	P 1,203,910,360	1,078,307,890

The classification of loans as to interest follows:

	2011	2010	2009
Over 20% to 25%	**P 359,426,780**	P 433,204,049	P 436,528,965
Over 15% to 20%	**615,798,890**	479,317,679	358,885,608
Over 10% to 15%	**370,674,029**	264,241,026	269,164,557
Over 5% to 10%	**104,787,188**	27,147,606	13,728,760
	P 1,450,686,887	1,203,910,360	1,078,307,890

All of the Bank's loans and other receivable have been reviewed for indicators of impairment. A reconciliation of the allowance for impairment losses on loans and other receivables at the beginning and end of December 31, 2011, 2010 and 2009 is presented in Note 14.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of December 31, 2011, 2010 and 2009 are shown below:

	Land	Building	Furnitures Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2011						
Cost	P 23,240,576	P 23,846,770	P 37,862,833	P 25,906,222	P 13,508,238	P 124,364,637
Accumulated depreciation & amortization	-	(7,560,216)	(24,468,608)	(14,555,806)	(8,431,964)	(55,016,594)
Net carrying amount	**P 23,240,576**	**P 16,286,554**	**P 13,324,225**	**P 11,350,416**	**P 5,076,274**	**P 69,348,043**
December 31, 2014						
Cost	P 16,470,538	P 23,766,385	P 30,147,973	P 20,210,553	P 20,093,200	P 110,688,649
Accumulated depreciation & amortization	-	(7,013,612)	(20,531,298)	(11,834,981)	(12,544,879)	(51,924,770)
Net carrying amount	**P 16,470,538**	**P 16,752,773**	**P 9,616,675**	**P 8,375,572**	**P 7,548,321**	**P 58,763,879**
December 31, 2009						
Cost	P 16,470,538	P 25,469,613	P 36,220,560	P 29,352,878	P 18,238,415	P 125,752,004
Accumulated depreciation & amortization	-	(5,946,701)	(27,035,408)	(19.572 874)	(11,394,352)	(63,949,335)
Net carrying amount	**P 16,470,538**	**P 19,522,912**	**P 9,185,152**	**P 9,780,004**	**P 6,844,063**	**P 61,802,669**
January 1, 2009						
Cost	P 16,470,538	P 19,284,913	P 29,780,140	P 27,678,649	P 12,914,804	P 106,129,044
Accumulated depreciation & amortization	-	(4,876,804)	(21,882,287)	(16,711,738)	(5,805,902)	(49,276,731)
Net carrying amount	**P 16,470,538**	**P 14,408,109**	**P 7,897,853**	**P 10,966,911**	**P 7,108,902**	**P 56,852,313**

A reconciliation of the carrying amounts at the beginning and end of December 31, 2011, December 31, 2010 and December 31, 2009, of bank premises, furniture, fixtures and equipment is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January1,2011, net of accumulated depreciation and amortization	P 16,470,538	P 16,752,773	P 9,616,675	P 8,375,572	P 7,548,321	P 58,763,879
Additions	6,930,038	927,545	10,106,799	6,181,823	2,036,748	26,182,953
Cost of disposal	(160,000)	-	-	(669,070)	-	(829,070)
Write-offs	-	-	(2,380,047)	-	-	(2,380,047)
Adjustment on cost		(847,160)	(11,892)	(182,916)	(8,621,710)	(9,297,846)
Adjustment on accumulated depreciation		665,798	(265,738)	156,206	9,017,113	9,573,377
Accumulated Depreciation of property disposed				503,989		503,989
Accumulated depreciation of property written off			2,380,047			2,380,047
Depreciation &amortization charges for the year		(1,212,402)	(6,051,619)	(3,381,020)	(4,904,198)	(15,549,239)
Balance at December 31, 2011, net of accumulated depreciation and amotization	P 23,240,576	P 16,286,554	P 13,394,225	P 11,350,416	P 5,076,274	P 69,348,043
Balance at January 1, 2010 net of accumulated depreciation and amortization	P 16,470,538	P 19,522,912	P 9,185,152	P 9,780,004	P 6,844,063	P 61,802,669
Additions		1,930,974	5,437,958	2,903,813	2,697,124	12,969,869
Cost of assets retired		(3,634,202)	(11,510,545)	(12,046,138)	(842,339)	(28,033,224)
Adjustment on accumulated depreciation		(100,743)				(100,743)
Accumulated depreciation of assets retired			13,342,093	12,590,620	2,201,254	28,133,967
Depreciation and amortization charges for the year		(966,168)	(6,837,983)	(4,852,727)	(3,351,781)	(16,008,659)
Balance at December 31, 2010, net of accumulated depreciation and amortization	P 16,470,538	P 16,752,773	P 9,616,675	P 8,375,572	P 7,548,321	P 58,763,879

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January 1, 2009, Net of accumulated depreciation and amortization	P 16,470,538	P 14,408,109	P 7,897,853	P 10,966,911	P 7,108,902	P 56,852,313
Additions		6,184,700	6,440,420	1,674,229	5,323,611	19,622,960
Depreciation and amortization charges for the year		(1,069,897)	(5,153,121)	(2,861,136)	(5,588,450)	(14,672,604)
Balance at December 31, 2009, Net of accumulated depreciation and amortization	P16, 470,538	P 19,522,912	P 9,185,152	P 9,780,004	P 6,844,063	P 61,802,669

In 2011, the Bank automated the maintenance and monitoring of bank premises, furniture, ifxtures and equipment account, data migration of which resulted to various adjustments.

12. INVESTMENT PROPERTIES

This account represents land acquired in settlement of loans which are held for capital appreciation.
The gross carrying amounts and allowance for impairment at the beginning and end of 2011, 2010 and 2009 are shown on the nest page:

	Note		
December 31, 2011			
Cost		P	13,592,062
Allowance for impairment	14	(	1,919,841)
Net carrying amount		P	11,672,221
December 31, 2010			
Cost		P	14,792,870
Allowance for impairment	14	(	1,919,841)
Net carrying amount		P	12,873,029
December 31, 2009			
Cost		P	15,135,476
Allowance for impairment	14	(	1,919,841)
Net carrying amount		P	13,215,635
January 1, 2009			
Cost		P	10,153,892
Allowance for impairment	14	(	1,919,841)
Net carrying amount P		P	8,234,051

A reconciliation of the carrying amount at the beginning and end of 2011, 2010 and 2009, of investment properties is shown below:

Balance at January 1, 2011, net of allowance for impairment	P	12,873,029
Disposals	(	1,200,808)
Balance at December 31, 2011, net of allowance for impairment	P	11,672,221
Balance at January 1, 2010, net of allowance for impairment	P	13,215,635
Additions		337,394
Disposals	(	680,000)
Balance at December 31, 2010, net of allowance for impairment	P	12,873,029
Balance at January 1, 2009, net of allowance for impairment	P	8,234,051
Additions		6,048,780
Disposals	(	1,067,196)
Balance at December 31, 2009, net of allowance for impairment	P	3,215,635

Management has assessed that no additional impairment loss is required to be provided on investment properties as of December 31, 2011, 2010 and 2009.

13. OTHER RESOURCES

The composition of this account is shown below:

	Note	**2011**	2010	2009
Restricted time deposit	8,16	**P 25,000,000**	P	P
Computerized program development		**9,652,953**	5,720,614	4,956,931
Stationery and office supplies		**2,280,726**	2,715,774	841,501
Prepaid expenses		**1,551,279**	6,835,570	8,450,297
Miscellaneous assets		**1,966,457**	1,067,639	1,739,931
		P 40,451,415	P 16,339,597	P 15,988,660

Restricted time deposit pertains to the time deposit with Bank of Philippines Islands (BPI) that is used as security to its bills payable (see Note 16). As such, this is restricted as to withdrawals.

14. ALLOWANCE FOR IMPAIRMENT LOSSES

As of December 31, the changes in the allowance for impairment losses are as follows:

	Notes	2011	2010	2009
Balance at beginning of year:				
Loan receivables P		P 36,330,423	P 25,294,841	P 17,434,323
Investment properties		1,919,841	1,919,841	1,919,841
Other receivables		286,479	258,802	8,825
		38,536,743	27,473,484	19,362,989
Impairment losses:				
Loan receivables		40,525,976	32,071,409	19,161,063
Other receivables		59,020	295,344	297,351
		40,584,996	32,366,753	19,458,414
Accounts written-off-				
Loan receivables		(16,920,025)	(21,035,827)	(11,300,545)
Other receivables		(57,333)	(267,667)	(47,374)
		(16,977,358)	(21,303,494)	(11,347,919)
Balance at end of year:				
Loan receivables	10	59,936,374	36,330,423	25,294,841
Investment properties	12	1,919,841	1,919,841	1,919,841
Other receivables	10	288,166	286,479	258,802
		P 62,144,381	P 38,536,743	P 27,473,484

15. DEPOSIT LIABILITIES

The composition of this account is as follows:

	2011	2010	2009
Savings and demand	P 74,832,731	P 286,462,036	P 242,480,600
Time	237,214,121	201,546,602	160,007,873
	P 512,046,852	P 488,008,638	P 402,488,473

The savings deposits have an annual interest rate of 1.00% in all years presented and the time deposits have interest rates ranging from 2.55% to 6.00% per annum in 2011, 3.50% to 7.25% per annum in 2010 and 7.50% to 9.00% per annum in 2009.

The maturity analysis of time deposits follows:

	2011	2010	2009
Six months to one year	P 141,605,672	P 138,120,430	P 136,727,728
More than one year	95,608,449	63,426,172	23,280,145
	P 237,214,121	P 201,546,602	P 160,007,873

Deposits from DOSRI amounted to P24.8 million and P27.1 million as of December 31, 2011 and 2010, respectively (see Note 21.1).
The carrying amounts of these financial liabilities are reasonable approximation of their fair values (see Note 5).

16. BILLS PAYABLE

This account consists of the Bank's payables to the following:

	2011	2010	2009
Bank of Philippine Islands (BPI)	**P 164,976,000**	131,346,000	P86,823,162
UCPB Savings Bank	**156,425,000**	113,896,500	83,921,500
Land Bank of the Philippines (LBP)	**113,977,247**	55,913,136	94,362,484
People's Credit andFinance Corporation (PCFC)	**102,002,228**	135,252,150	120,010,672
Development Bank of thePhilippines (DBP)	**76,540,270**	14,230,772	23,524,806
BPI - Globe Banko, Inc.	**68,950,000**		
Small Business and Finance Corporation (SBC)	**68,911,431**	P 38,459,344	105,870,567
Stichting Triodos-Doen	**50,000,000**	50,000,000	50,000,000
Credit Suisse Microfinance Fund Management Company	**34,671,000**	34,671,000	
National Livelihood andDevelopment Corp. (NLDC)	**44,300,298**	35,002,391	29,629,794
Bangko Sentral ng Pilipinas	**41,554,421**	10,113,544	7,988,079
Oxfam Novib	**30,870,000**	49,283,407	49,283,407
UCPB-CIIF Finance and Development Corp.	**19,979,464**	15,843,419	20,000,000
ResponsAbility SICAV	**11,557,000**	11,557,000	
Oiko Credit	**3,999,535**	8,000,000	12,000,000
Planters DevelopmentBank (PDB) -			1,431,791
	P 988,713,894	P 703,568,663	P 684,846,226

The maturity analysis of bills payable follows:

		2011		2010		2009
One year and below	P	**839,058,056**	P	453,274,548	P	304,672,852
More than one year		**149,655,838**		250,294,115		380.173.410
	P	**988.713.894**	P	703.568.663	P	684.846.262

The accounts with BPI represent the balance under a credit line, bearing interest rates of 2.50% to 6.25% annually. The loans will mature on various dates until December 2012. Portion of bills payable are secured by a certificate of time deposit with BPI amounting to P25.0 million (see Note 13). Moreover, said bills payable is collateralized by assignment of promissory notes amounting to P197.4 million as of December 31, 2011 (see Note 10).

The Bank availed of a credit line and term loan from UCPB Savings Bank with annual interest rates ranging from 8.50% to 9.75% payable on either quarterly or semi-annual. The said bills payable is collateralized by assignment of the sub-borrowers' promissory notes amounting to P172.1 million as of December 31, 2011 (see note 10).

The accounts with LBP represent the balance of the bills payable arising from rediscounting of loans, both secured, and unsecured, and clean loans under a credit line. The said bills payable is collateralized by the sub-borrowers' promissory notes amounting to P116.6 million as of December 31, 2011 (see Note 10). These loans bear interest rates ranging from 6.8% to 9.50% annually and are payable within one year to five years.

The accounts with PCFC represent loans availed from PCFC with annual interest rates ranging from 3.0% to 10.0%, payable within two to five years. These bills payable are collateralized by assignment of sub-borrowers' promissory notes amounting to P115.9 million as of December 31, 2011 (see Note 10). The credit line agreement provides that any cash dividend declaration by the Bank shall require prior approval from PCFC.

The accounts with DBP represent the balance of the bills payable arising from rediscounting of loans which has interest rates ranging from 4.22% to 8.50% annually and are payable from one to two years. These bills payable are secured by assignment of sub-borrowers' promissory notes with outstanding balance of P84.2 million as of December 31, 2011 (see Note 10).

The accounts with BPI - Globe Banko, Inc. represent loans availed by the Bank with annual interest rates of 7.5% payable monthly with various maturity dates in 2012. Said loans are secured by assignment of sub-borrowers' promissory notes amounting to P82.7 million as of December 31, 2011 (see Note 10).

The accounts with SBC represent the balance of bills payable arising from rediscounting of loans with annual interest rates ranging from 6.74% to 7.23% payable within one to five years. These loans are secured by assignment of sub-borrowers' promissory notes amounting to P75.8 million as of December 31, 2011 (see Note 10).

The accounts with Stitching Triodos-Doen represent unsecured term loans with interest rate of 11.0% per annum and have term of two years, payable on September 1, 2012 and October 1, 2012.

The accounts with Credit Suisse Microfinance Fund Management Company through its Investment Partner Planet Finance represent an unsecured two-year term loan with annual interest rate of 11.25% which will mature on July 13, 2012.

The account with ResponsAbility SICAV through its Investment Partner Planet Finance represents two-year unsecured term loan with annual interest rate of 11.25% which will mature on July 13, 2012.
The accounts with NLDC represent loans under a credit line with interest rate of 9.0% annually. The loans will mature on various dates until November 2014. The loans are secured by assignment of sub-borrowers' promissory notes amounting to P50.9 million as of December 31, 2011 (see Note 10).

The accounts with BSP represent short term loans with various maturity dates in 2012. These loans bear interest rate based on prevailing rediscounting rate. The loans are secured by assignment of sub-borrowers' promissory notes amounting to P44.9 million as of December 31, 2011 (see Note 10).

The account with Oxfam Novib through its agent Triple Jump B.V represents an unsecured two-year term loan with annual interest rate of 10.5%. The loan will mature on November 15, 2012.

The accounts with UCPB-CIIF Finance and Development Corporation represent loans under a credit line with annual interest rate of 9.0%. The loans will mature on various dates until December 2012.

The account with Oiko Credit represents an unsecured loan with annual interest rate of 10.0%. The loan is payable every six months until November 26, 2012.

The carrying amounts of these financial liabilities are reasonable approximation of their fair values (see Note 5).

17. UNSECURED SUBORDINATED DEBT

This account represent obligation to LBP arising from the issuance of ten-year unsecured subordinated debt denominated in local currency eligible as Tier 2 (supplementary) capital of the Bank, with the following terms and conditions, among others:

- the Bank pays LBP interest rate at 9.65% per annum payable semi-annually with ifxed due dates reckoned from April 1, 2009, the release of proceeds;

- the note does not constitute a deposit by LBP and is not insured by PDIC; it shall not have priority claim, in respect of principal and coupon payments, in the event of winding-up of the Bank; and

- the note cannot be terminated by LBP before maturity date.

The carrying amounts of unsecured subordinated debt is a reasonable approximation of their fair values (see Note 5).

18. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2011	2010 (As Restated see Note 2)	2009 (As Restated see Note 2)
Accrued interest payable		**P 24,097,297**	P 22,305,909	P 11,481,777
Retirement benefit obligation	23.2	**19,920,750**	19,045,302	2,000,000
Accounts payable		**12,276,854**	16,341,695	13,266,382
Accrued expenses		**10,952,166**	18,886,039	19,064,642
Redeemable preferred shares	19.1	**4,715,700**	4,715,700	4,715,700
Dividends payable		**997,581**	2,509,887	1,889,672
Other liabilities		**4,024,229**	5,734,681	914,995
		P 76,984,577	P 89,539,213	P 53,333,168

The carrying amount of accrued expenses and other liabilities is a reasonable approximation of fair value (see Note 5).

19. EQUITY

19.1 Capital Stock

As of December 31, capital stock consists of:

	Shares 2011	Shares 2010 (As Restated - see Note 2)	Shares 2009 (As Restated - see Note 2)	Amount 2011	Amount 2011 (As Restated - see Now 2)	Amount 2009 As Restated See Note 2)
Preferred stock A- 1100 Par value Authorized-51,353 shares Issued and outstanding	**47,157**	47,157	47,157	P 4,715,700	P 4,715,700	4,715,700
Preferred stock B- P100 Par value Authorized-150,000 shares Issued and outstanding	**35,000**	**35,000**	**35,000**	**3,500.000**	**3,500.000**	**3,500,000**
	82,157	82,157	82,157	8,215,700	8,215,700	8,215,700
Less: Redeemable Preferred shares reclassified to accrued expenses and other liabilities (see Note 18)	**(47,157)**	(47,157)	(47,157)	(4,715,700)	(4,715,700)	(4,715,700)
	35,000	35,000	35,000	3,500,000	3,500,000	3,500,000
Common stock P100 par value Authorized-1,298,647 issued and outstanding:						
Balance at beginning of year	**426,198**	426,198	426,198	P 42,619,800	P 42,619,800	P 42,619,800
Issued during the gear	**108**	-	-	10,800		
Balance at end of year	**426,306**	426,198	426,198	P 42,630,600	P 42,619,800	P 42,619,800

The preferred shares have the following tights, preferences, conditions and limitations:

(a) Preferred shares "A" are issued only against the government investment in the capital stock of the Bank. The shares are non-voting, convertible to common shares and shall share in the dividend distributed from the date of issuance of the rate provided under Section 8 R.A. No. 7353 which dividend shall be cumulative. The shares have preference over common shares in the assets of the Bank in the event of liquidation. Per Memorandum of Agreement executed in 1992 between the Bank and government stockholder, the Bank has fixed obligation to redeem the shares on or before the 15th year from the date of conversion the preferred shares of stock still held by the government stockholder.

(b) Preferred shares "B" shall be issued only, after the creation of sinking fund for its redemption to qualified private persons, natural or juridical, and shall have preference over common stocks in the assets of the Bank in the event of iquidation and which sinking fund shall be affected by the transfer of free surplus to restricted surplus account and shall not be available for dividends. The shares are redeemable anytime at the option of the Bank after five years from date of issuance, non-voting and convertible and shall have preference as to dividends only as may be set by the Bank's BOD, but which should not however be in the absence of sufficient undivided profits, free surplus and approval of the BSP.

The Bank has 39 stockholders owning 100 more shares each of the Bank's capital stock as of December 31, 2011 and 2010.

20. PRIOR PERIOD ADJUSTMENTS

The balance of surplus free as of January 1, 2011 has been restated from the amount previously reported due to the unrecorded adjustments and reversal of certain transactions.

Balance at beginning of year as previously reported	P	78,470,904
Prior period adjustments:		
Unrecorded accrued interest receivable using the:		
Effective interest rate		7,801,502
Nominal interest rate		6,735,089
Unrecorded deferred tax asset		4,921,472
Reversal of microfinance deferred charges		(4,064,333)
Unrecorded unearned interest income		(1,453,556)
		13,940,174
Balance at beginning of year as restated	P	92,411,078

The foregoing adjustments resulted in the increase in total assets and equity by P13.9 million as of December 31, 2010.

21. RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI, key management, related parties and others as described below. None of the transactions incorporate special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

The following are the transactions with related parties:

21.1 Loans and deposits

In the ordinary course of business, the Bank has loan and deposit transactions with DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks. Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. In addition, the aggregate DOSRI loans generally should not exceed the Bank's capital funds or 15% of the Bank's loan portfolio, whichever is lower (see Note 10). As of December 31, 2011 and 2010, the Bank is in compliance with these regulations. Deposit with DOSRI has outstanding balance of P24.8 million and P27.1 million as of December 31, 2011 and 2010, respectively (see Note 15).

21.2 **Key Management Personnel Compensations**

The compensations of key management personnel are broken down as follows:

		2011		2010
Salaries and wages	P	**4,702,812**	P	4,713,912
Benefits		**252,000**		300,000
	P	**4,954,812**	P	5,013,912

22. OTHER INCOME - OTHERS

This account is composed of the following:

		2011		2010
Fines and penalties and other charges	P	**18,563,672**	P	15,383,267
Recovery on charged-off assets		**1,489,176**		1,371,410
Income from assets sold		**677,827**		573,650
Others		**1,067,629**		
	P	**21,798,304**	P	17,328,327

23. COMPENSATION AND EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for compensation and employee benefits are presented below:

`	Note		2011		2010
Salaries and short-term employee benefits		P	**115,518,907**	P	118,801,853
Post-employment defined benefit	23.2		**3,515,842**		1,000,000
		P	**119,034,749**	P	119,801,853

23.2 Post-employment Benefits

The Bank maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees.

Actuarial valuation for Bank's retirement obligation was only obtained for the year, hence, there is only one year presented for the determination of retirement benefit obligation. The computation of retirement benefit obligation as of December 31, 2010 and 2009 were based on the estimate provided by a trustee who administered the Bank's plan assets.

The amount of retirement benefit obligation as of December 31, 2011 presented under Accrued Expense and Other Liabilities (see Note 18), recognized in the 2011 statement of financial position is determined as shown in the next page.

Present value of obligation	P	13,267,370
Fair value of plan assets	(	3,129,396)
Deficiency of plan assets		10,137,974
Unrecognized actuarial gains		9,782,776
	P	19,920,750

The movement in present value of the retirement benefit obligation recognized in the books as of December 31, 2011 is as follows:

Balance at beginning of year	P	19,045,302
Actuarial loss	(	8,775,130)
Current service cost		1,959,327
Interest cost		1,556,515
Benefits paid by the plan	(	518,644)
	P	13,267,370

The movement in the fair value of plan assets as of December 31, 2011 is presented below:

Contributions paid into the plan	P	2,640,394
Actuarial gain		1,007,646
Benefits paid by the plan	(	518,644)
	P	3,129,936

The plan assets consist of various short-term placements with local banks.

The Bank will fund its retirement benefit obligation in 2012.

The amounts of retirement benefits expense recognized in the 2011 statement of comprehensive income are presented below (see Note 23.1):

Current service cost	P	1,959,327
Interest cost		1,556,515
	P	3,515,842

For the determination of the retirement benefit obligation, the following actuarial assumptions were used:

Discount rate	6.57%
Expected rate of return	4.00%
Salary increase rate	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables.

The overall expected long-term rate of return on assets is 10%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns in individual asset categories. The return is based exclusively on historical returns, without adjustments.

24. TAXES

24.1 Current and Deferred Tax

The components of tax expense as reported in profit or loss for the years ended December 31, 2011 and December 31, 2010 are shown in the next page:

		2010 (As restated		2011 see Note 20)
Current tax expense:				
Regular corporate income tax (RCIT) at 30%	**P**	**13,182,277**	P	13,990,469
Final tax at 20%		**506,237**		-
		13688,514		13,990,469
Deferred tax income:				
Deferred tax income relating				
to origination and reversal of temporary differences	**(**	**4,121,411)**	(	8,240,469)
	P	**9,567,103**	P	5,720,020

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax income reported in profit or loss is presented below.

		2011			2010 As restated - see Note 20)
Tax on pretax profit at 30%	P	9,127,703		P	13,918,346
Adjustment for income subjected to lower income tax rate	(	404,990)	-		
Tax effects of:					
Non-deductible interest expense		300,705			380,022
Others		543,685		(	8,548,348)
Tax expense reported in profit or loss	P	9,567,103		P	5,750,020

The deferred tax assets as of December 31, 2011, 2010 and 2009 relate to the following:

	2011	2010 - (As Restated - see Note 20)	2009	2011	2010 -2011 (As Restated- see Note 20)
		Statements of Financial Position Position		Statements of Comprehensive Income Income	
Allowance for impairment	**P 17,980,912**	P 11,961,776	P 8,642,800	P 6,019,136	P 3,318,976
Accrued retirement benefits	**5,976,225**	4,921,473	-	1,054,753	4,921,473
Effective interest income	**(2,952,478)**	-	-	(2,952,478)	-
Deferred tax income				P 4,171,411	8,240,449
Deferred tax assets - net	**P 21,004,659**	P 16,883,249	P 8,642,800		

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. No MCIT was reported in 2011 and 2010 as the RCIT was higher than MCIT in both years.

24.2 optional Standard Deduction
Effective July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made.

In 2011, the Bank opted to continue claiming itemized deductions.

25. EARNINGS PER SHARE

Earnings per share amounts are computed as follows:

	2011	2010 (As Restated see Note 20)
a. Net profit attributable to common shares	**P 19,977,690**	39,763,584
b. Net profit attributable to common shares and potential common shares	**P 20,858,574**	P 40,644,468
c. Weighted average number of outstanding common shares	**426,306**	426,306
d. Weighted average number of outstanding common andpotential common shares	**508,463**	508,355

	2011	2010 (As Restated see Note 20)
Earnings per share:		
Basic (a/c)	**P 46.86**	P 93.27
Diluted (b/d)	**P 41.02**	**P** 79.95

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the measures of the financial performance of the Bank:

	2011	2010 (As Restated -See Note 20)
Return on average equity	**13.68%**	29.48%
Return on average assets	**1.27%**	2.88%
Net interest margin	**52.96%**	58.88%
Capital-to-risk assets ratio	**13.24%**	15.47

27. COMMITMENTS AND CONTINGENCIES

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the accompanying financial statements. The Bank's management is of the opinion that as of December 31, 2011 and 2010, losses, if any, from these claims will not have any material effect on the Bank's financial statements.

28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

28.1 **Requirements under Revenue Regulations (RR)15-2010**

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 issued on November 25, 2010, are as follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the gross receipts tax imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the 1997 National Internal Revenue Code, as amended.

In December 31, 2011, the Bank reported total gross receipts tax amounting to P22,647,797 as shown under Taxes and Licenses account in the 2011 statement of the comprehensive income.

(b) Documentary Stamp Tax

In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments. For the year ended December 31, 2011, documentary stamp tax affixed amounted to P5.7 million representing documentary stamps imposed mainly on debt instruments executed during the year.

On the other hand, t he DST on the Bank's loan releases and time deposits are shouldered by its corresponding depositors and borrowers. However, the remittance to the BIR is done by the Bank. Total DST remitted by the Bank for the said transactions amounted to P3.1 million for the year ended December 31, 2011.

(c) Landed Cost, Customs Duties and Tanff Fees

The Bank has no customs duties and tariff fees as there were no importations in any of the years presented.

(d) Excise Tax

The Bank does not have excise tax in any of the years presented since it does not have any transactions which are subject to excise tax.

(e) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2011 are shown below.

Compensation benefits	P	8,137,189
Final		6,911,228
Creditable		4,123,214
	P	19,171,631

(f) Taxes and Licenses

The details of Taxes and Licenses are as follows:

Gross receipts tax	P	22,647,797
Documentary stamp tax		5,674,081
Local taxes and business permits		2,549,005
Miscellaneous		3,968,457
	P	34,839,340

(g) Deficiency Tax Assessments and Tax Cases

The Bank has no outstanding deficiency tax assessments (whether protested or not) and taxes under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR.

28.2 Requirements under RR 19-2011

On December 9, 2011, the BIR issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with years ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2011 statement of comprehensive income.

(a) Taxable Revenues

The composition of the Bank's taxable revenues for the year ended December 31, 2011 is presented below.

		Regular Tax Rate
Rendering of Services	P	296,631,113

(b) Deductible Costs of Sales and Services

Deductible costs of services for the year ended December 31, 2011 comprises the following:

		Regular Tax Rate
Interest expense	P	93,045,185
Salaries and employee benefits		76,855,542
Miscellaneous		21,542,908
	P	**191,443,635**

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2011 which are subject to regular tax rate are shown below.

Service charge, fees and commission	P	109,669,016
Others		21,798,304
	P	**131,467,320**

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2011 are as follows:

		Regular Tax Rate
Salaries and employee benefits	P	38,663,364
Taxes and licenses		34,839,340
Depreciation and amortization		15,549,239
Transportation and travel		15,131,950
Fees and commissions		13,454,169
Outside services		11,338,011
Rentals		11,160,727
Fuels and lubricants		8,028,091
Supplies		6,434,975
Power, light and water		5,327,723
Communications		5,186,138
Repairs and maintenance		4,727,155
Representation and entertainment		3,583,585
Information technology		3,448,419
Professional fees		2,431,181
Insurance		2,161,728
Finance charges		1,662,545
Miscellaneous		9,587,536
	P	192,715,876

ENTERPRISEBank DIRECTORY

BRANCHES

Head Office
National Highway, Lianga,
Surigao del Sur
ebi_headoffice@yahoo.com

Aras-asan Branch
National Highway, Aras-asan
Cagwait, Surigao del Sur
ebi_aa2004@yahoo.com

Barobo Branch
National Highway, Barobo,
Surigao del Sur
ebi_barobo@yahoo.com

Bislig Branch
Espiritu St., Mangagoy,
Bislig, Surigao del Sur
Tel. No. (086) 853-2263

Butuan Branch
G/F , Intino Building,
J.C. Aquino Ave.,
Butuan City
Tel. No. (085) 815-4408

Cagayan de Oro Branch
1st Floor Centro Mariano
Bldg.,Osmeña St.,
Cagayan de Oro City
Tel. No. (088) 272-3869

Cateel Branch
Castro Avenue,
Pob. Cateel, Davao Oriental
ebi_boscaba@yahoo.com

Davao - Bajada Branch
Unit 1A - 3A Bajada Plaza Bldg.,
J.P. Laurel Ave.,
Bajada, Davao City
Tel. No. (082) 225-8892

Davao - Matina Branch
Door H 101-C, DBC Realty Bldg.
McArthur Highway
Davao City
Tel. No. (082) 297-4009

Davao - Buhangin Branch
Unit #6 Plug Holdings Inc.,
Nat'l Highway,
Brgy. Buhangin,
Davao City
Tel. No. (082) 300-5034

Digos Branch
Rizal Avenue, Digos City
(082) 553-2812

General Santos Branch
Ground Floor CAP Bldg.,
Corner Pendatun Ave.,
Anonas St., General Santos city
Tel. No. (083) 301-8986

Hinatuan Branch
Corner Magallanes St. and
Bandola St.,
Hinatuan, Surigao del Sur
Tel. No. (086) 853-6113

Koronadal Branch
Ledesma Bldg., Abad Santos
St., Zone 3, Koronadal City
Tel. No. (083) 520-1334

Ozamis Branch
G/F LKT Bldg.
Don Anselmo Bernard Ave.
Ozamis City
Misamis Occidental
Tel. No. (088) 5642698

Panabo Branch
Unit 1 Centino Realty,
Quezon St., Panabo City
Tel. No. (084) 822-3420

Tagum Branch
Dalisay St., Gante Road,
Brgy. Magugpo West,
Tagum City
Tel. Nos. (084) 822-6462
400-4378

Talisay Branch
Nat'l Highway, Lawa-an I,
Talisay City, Cebu
Tel. Nos. (032) 421-1120
421-1121

Tandag Branch
Bag-ong Lungsod, Napo,
Nat'l Highway Tandag,
Surigao del Sur
Tel. No. (086) 211-3474

San Francisco Branch
Quezon St., San Francisco,
Agusan del Sur
Tel. Nos. (085) 839-3334

Valencia Branch
G. Laviña Ave., Guinoyaran
Rd., Pob. Valencia City
Tel. No. (088) 828-2086
343-8624

KIOSKS

Bayugan Kiosk
Yakal St., Taglatawan,
Bayugan City
Tel. No. (085) 830-4420

Cabadbaran Kiosk
Tolentino bldg. B-3 Curato St.,
Cabadbaran, Agusan del
Norte

Gingoog Kiosk
Trinidad Baol corner C.V
Lugod,Gingog City

Iligan Kiosk
Philam Bldg., S. Lluch St.,
Saray Pob., Iligan City
Tel. No. (063) 221-0183

Kidapawan Kiosk
Datu Ingkal St.,
Kidapawan City
Tel. No. (064) 288-5740

Isulan Kiosk
Isulan Paint Trade Center,
National Highwa, Isulan,
Sultan Kudarat

Libungan Kiosk
Ground Floor Jackie Ondoy
Bldg., Poblacion, Libungan
North Cotabato
Tel. No. (064) 521-6305

Lingig Kiosk
Marcelo St., Poblacion,
Lingig, Surigao del Sur

Madrid Kiosk
Brgy. Quirino, Madrid,
Surigao del Sur
Tel. No. (086) 213-4034

Maramag Kiosk
Purok 2, South Poblacion
Maramag, Bukidnon

Marihatag Kiosk
Pob. Marihatag,
Surigao del Sur

Mati Kiosk
Door 10, MJI Bldg., Rizal
Ext., Mati City
Tel. No. (087) 811-2054

Molave Kiosk
753 Capistrano St., Molave,
Zamboanga del Sur
Tel. No. (088) 521-4628

Nabunturan Kiosk
P-1, Sta. Teresita St.,
Babunturan, Compostela
Valley Province
Tel. No. (084) 376-0172

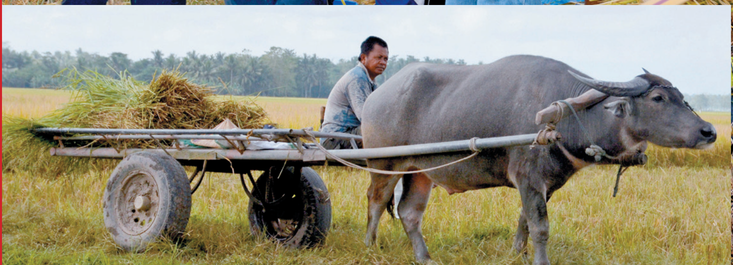
Tagbina Kiosk
Purok 4, Poblacion Tagbina,
Surigao del Sur

Trento Kiosk
Block Tienda Bldg., Prk. 7,
Trento, Agusan del Sur

Sto. Tomas Kiosk
Taylor Bldg. Fd. Rd. #3
Sto. Tomas,
Davao del Norte
Tel. No. (084) 829-1331

Surigao Kiosk
00515 Burgos St.,
SurigaoCity
Tel. No. (086) 826-4219

our clients
our partners...



For the year 2011, we shifted our focus to Southern Mindanao where Enterprise Bank has interestingly attracted a number of Medium and Small Business entrepreneurs engaged in various enterprises.