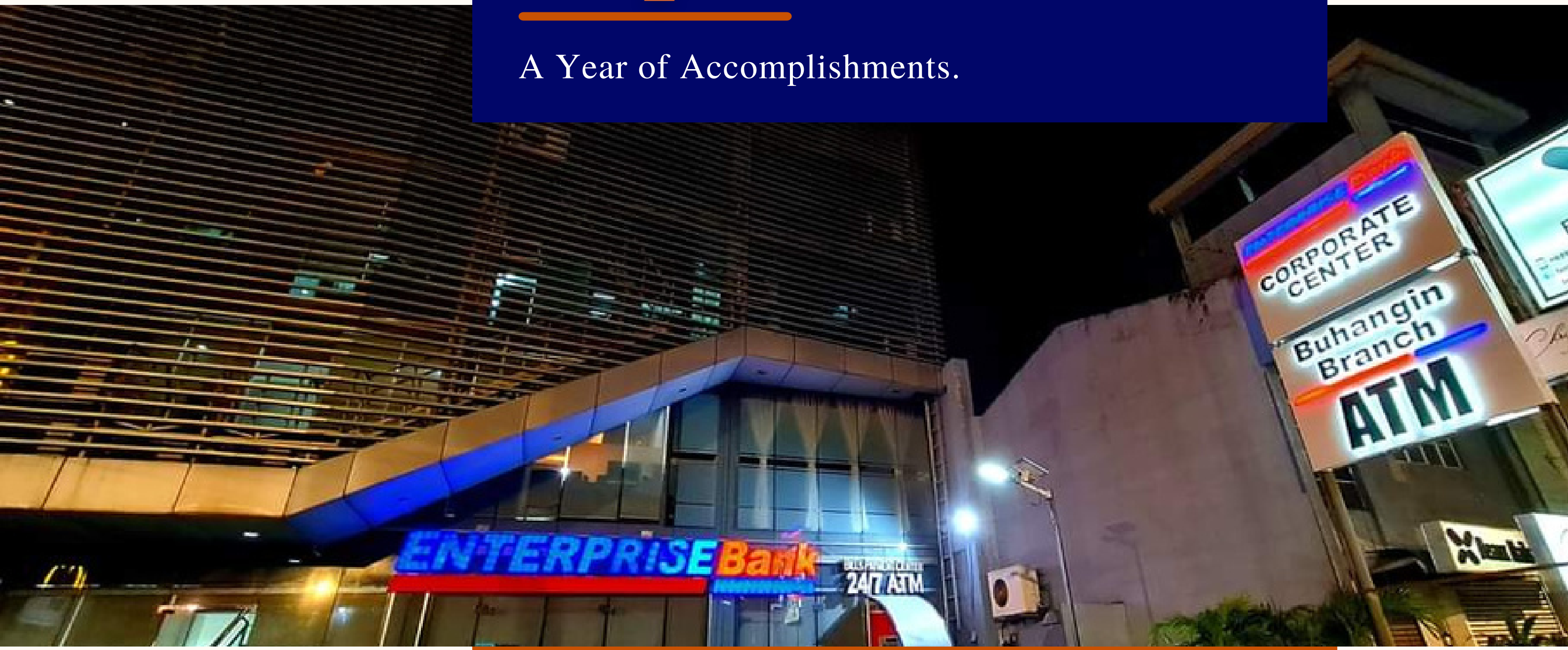
Annual Report

A Year of Accomplishments.



2021

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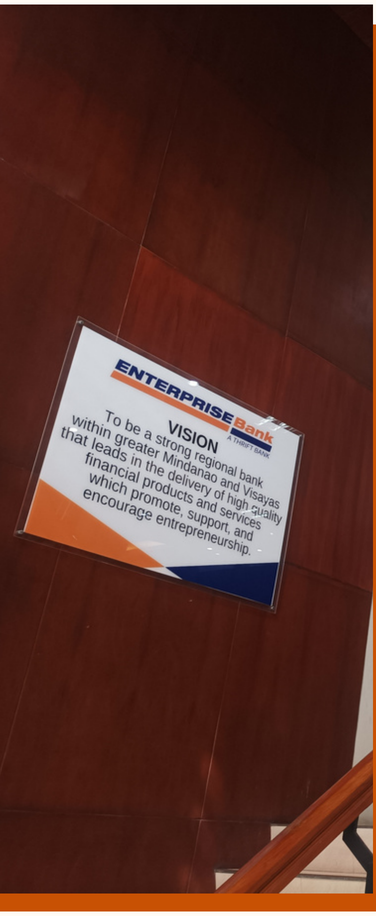
CONTENTS

VISION

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

MISSION

- Provide innovative financial products and services to small and medium sized enterprises, micro entrepreneurs, especially women and to members of low income groups and 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 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.

OUR CORPORATE POLICY

Enterprise Bank, Inc. (EBI) vision and mission characterize the Bank's direction and strategies for the years ahead. While the Bank is aspiring to broaden the reach of its services, it does not dismiss its exemplified operation to serve the small entrepreneurial investments, help boost the local economy's consumption, and continuously promote savings altogether.

EBI also gears to infuse technological innovations, without losing sight of government regulations, which leads to maximizing its human and capital resources.

OUR BRAND

EBI is an institution in motion. EBI depicts a bank that is continuously moving/evolving to meet the demands of its clients and the market.

Likewise, EBI ardently supports financial inclusion where its presence is apparent to micro, small, and medium entrepreneurs in urban and rural areas for their financial need, both business or personal.

OUR MODEL

From its humble beginning as a rural bank in Surigao del Sur, the Bank continues to provide financial services embodied in its mission, in shared obligation with the community, to uplift the quality of life of its cliente in rural areas.

FINANCIAL SUMMARY / HIGHLIGHTS

Minimum Required Data	Current Year (2021)	Previous Year (2020)
Profitability		
Total Net Interest Income	184,060,336	145,803,802
Total Non-Interest Income	96,636,550	109,876,801
Total Non-Interest Expenses	228,112,394	212,167,580
Pre-Provision Profit	52,584,492	43,513,023
Allowance for credit losses	8,260,000	0
Net Income	44,324,492	43,513,023
Select Balance Sheet Data		
Liquid Assets	582,059,577	420,391,686
Gross Loans	1,654,757,912	1,413,548,635
Total Assets	2,595,310,398	2,193,998,261
Deposits	2,193,434,954	1,868,906,030
Total Equity	255,288,281	139,978,371
Selected Ratios		
Return on equity	23.36%	16.44%
Return on assets	1.93%	1.50%
Capital Adequacy Ratio	10.01%	10.35%
Net Income per share:		
Basic	15.74	11.54
Diluted	15.74	11.54
Book Value	71.13	78.44
Headcount	273	270
Officers	15	15
Staff	258	255

PRESIDENT'S REPORT
by: Roberto F. Salazar

The year 2021 had been a brighter year for everyone when business activities and slight economic recovery were experienced after the pandemic. The Bank's income for the year increased by more than 40% from the previous year.

With the regained economic activities albeit slower, the Bank was able to achieve an 8% growth in loan receivables with concluded figures of P1.65 billion at year-end. As recoveries are expected to happen next year, EBI is aspiring to achieve a loan portfolio of P2.81 billion, higher by 47% from the current year as the country's economy is anticipated to bounce back from the effect of the pandemic. Consumer Loans mark the majority of the Bank's portfolio at 72%. With this, EBI is geared towards expanding its Enterprise Loans portfolio in response to possible economic boom post pandemic, while observant with risk and control measures.

Total deposit liabilities also increase by P324 million, a 17% growth from the previous year's P1.87 billion. This growth demonstrates consumer and investors' declined spending activities since pandemic restraining policies by both national and local governments were still evident during the first half of 2021. However, the bank is optimistic to increase its deposit liabilities to P2.71 billion, thus, ending its asset figure for the next year at P3.15 billion from P2.59 billion as of the current year.

For 2021, the Bank was able to book around P280 million of loan loss provision following the mandated regulatory guidelines. Likewise, Enterprise Bank, Inc. is among the top 20 of 100 Rural Banks in the country in terms of Total Assets, Total Deposit Liabilities, and Net of Total Loans Receivables.

Along with the accomplished data, the Bank also made tangible improvements in its organization. Foremost, the Bank's services expand in two major cities in the Visayas region following the opening of Bacolod and Tacloban branches. On the other hand, Surigao and Trento branches were relocated to a better location to display its steadfast commitment of financial service. Finally, additional assets were introduced in its inventory to augment mobility and amplify services in the aspect of information technology.

With the achievements in 2021, and a positive outlook for the year ahead, the Bank and its management team are with enthusiasm to seize the impending opportunities while serving the financial demands of the community, especially in the rural areas.

RISK MANAGEMENT FRAMEWORK

The Board and Management of Enterprise Bank, Inc. believes that risk management (RM) is an essential element of good governance, thus it fully supports a bank-wide RM that looks into the adequacy of controls in addressing all the risks of the Bank. It adopts an integrated risk management approach that encompasses all possible risks the bank could encounter--the Enterprise Risk Management (ERM).

Overall risk management oversight is initiated by the Board of Directors of the Bank who established Board Committees to oversee the increasingly varied risk management activities, with the active participation of the Senior Management.

The board oversight approves the RM Framework of the Bank, as well as the RM policies and procedures and other forms of controls proposed to manage the risks. Risk management and appetite statements of EBI are manifested in the policies, processes, and procedures adopted to operate the deposit-taking and lending activities of the Bank. The Bank's RM is undertaken in the context of its vision, mission, and strategies, considering the existing structure, products and services, communication processes, and infrastructure support.

With a working Enterprise Risk Management approach, EBI expects to increase operational efficiencies, enhance its resilience by way of a strong capital base, and sustain growth through the achievement of target profitability level. Likewise, this RM is expected to increase the Bank's client reach and enable the generation of revenues that would allow the Bank to continue and increase its contribution to social development as fore of the Bank's corporate social responsibility.

Overall Anti-Money Laundering and Terrorist Financing Risk Management

Consistent with the Bank's mission of full compliance to existing laws and regulations, the Board and Management agree in denouncing any money laundering and terrorist financing activities. Measures taken by the Bank include the enhancement of its KYC policies and procedures in the assessment of a client's risk profile.

RISK MANAGEMENT FRAMEWORK

Another risk mitigating control involves cross-referencing the names of newly-opened accounts against the UN Sanction List. Any applicant assessed as high risk or will potentially expose the Bank to money laundering and terrorist financing will not be allowed to open an account.

Managing risks associated with these prohibited acts is undertaken both in the head office and the branches. Branch employees are trained and equipped to detect and diligently report suspicious transactions to the Bank's Compliance Department.

Client's bank transaction categorized as a covered or suspicious transaction under AMLC's definition are further assessed by the Compliance Department to make an appropriate directive to the concerned branch to adopt measures such as the conduct of enhanced due diligence or immediate account closure, if warranted, with due notice to the account holder. The Compliance Department likewise is in charge of submitting the report to AMLC on time.

Capital Structure and Capital Adequacy

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets.

Hence, beneath are capital account figures of Enterprise Bank for the year:

	Amount (in millions)
Tier 1 Capital	167.10
Tier 2 Capital	66.35
Total Qualifying Capital	**233.45**
Capital Requirement for Credit Risk	1,980.06
Capital Requirement for Market Risk	0
Capital Requirement for Operational Risk	351.48
Total CAR (%)	**10.01%**
Tier 1 CAR	**7.17%**

Breakdown of Qualifying Capital (in millions)	Tier 1	Tier 2	Total
Core Capital	**255.29**	**66.35**	**321.64**
- Paid up Common Stock	358.93	0.00	358.93
- Retained Earnings	(149.80)	0.00	(149.80)
- Undivided Profits	46.16	0.00	46.16
- Paid up Perpetual and Cumulative Preferred Stock	0.00	0.00	0.00
- Paid up limited life redeemable preferred stock with the replacement upon redemption	0.00	51.80	51.80
- General loan loss provision	0.00	14.55	14.55
- Unsecured Subordinated Debt	0.00	0.00	0.00
Deductions	**88.18**	**0.00**	**88.18**
- Deferred Tax Asset	86.48	0.00	86.48
- Un-booked Valuation Reserves	0.00	0.00	0.00
- Unsecured Loans to DOSRI	1.71	0.00	1.71
- Total Operational Risk-weighted Assets	0.00	0.00	0.00
Total Qualifying Capital	**167.10**	**66.35**	**233.45**

CORPORATE GOVERNANCE

Enterprise Bank, Inc.'s corporate governance is demonstrated in its organizational structure that defines hierarchy lead by the Board of Directors with delegated duties through several Board-level committees namely: the Audit, Risk, and Compliance Committee, the Executive Committee, the Credit Committee, the Related Party Transactions Committee, and the Asset/Liability Committee.

EBI's policies, procedures, and systems, through the oversight of the above committees, are a testament of translating the Bank's Mission and Vision in its commitment to serve the financial consuming public.

Selection Process for the Board of Directors

A Director can either be a Filipino or Non-Filipino, with regard to law and regulation on foreign ownership, at least 25 years of age at the time of the election or appointment, and physically and mentally fit to discharge the duties and responsibilities of being a member of the Board.

Members of the Board of Directors are determined if fit and proper by considering their integrity, probity, educational attainment, financial literacy, knowledge and experience, and independence of mind.

Pursuant to the Bank's By-laws, the holders of common stock entitled to vote shall elect the members of the Board of Directors.

Selection Process for the Senior Management

The standard of fit and proper attributes for the selection of a member of Senior Management is analogous to that of the members of the Board of Directors, which considers the integrity, probity, educational attainment, knowledge and years of experience relevant to the function, and skills and diligence of a candidate officer.

Board's Overall Responsibility

EBI's Board of Directors sets the overall policies and strategic directions of the Bank, which serves as the guide of management and operating units in the daily operations. Additionally, the Board provides the oversight functions in the overall performance, and advocates of good corporate governance with a firm commitment to ethical standards and compliance to legal, institutional, regulatory requirements.

The Board also makes sure that the Bank remains accountable to its stockholders. Thus, members of the Board of Directors are expected to—

1) Remain fit and proper for the position for the duration of his/her term;

2) Attend orientation and training. The board must have attended a seminar on corporate governance and shall have continuous development and education concerning Bank operation;

3) Ensure soundness, effectiveness, and adequacy of the Bank’s control environment;

4) Observe confidentiality of non-public information which he/she shall have acquired because of his being a director;

5) Continuously exercise objective independent judgment on corporate affairs requiring his/her decision or approval;

6) Continuously devote time and attention as necessary for the discharge of his/her duties and responsibilities; and,

7) Conduct fair business transactions with the Bank to make sure that personal interest does not distort his/her board decision.

BOARD COMPOSITION

Description of the Role and Contribution of the Chairman of the Board

The Chairman of the Board of Directors of Enterprise Bank, Inc. is responsible for the effective functioning of the entire Board. He/She ensures that matters of discussion in the Board focuses on governance concerns and key strategies of the Bank. He/She ensures decorum over critical discussions that would result in relevant decisions by the entire Board.

Name of Director	Type of Directorship	Number of Years Served as Director	Number of Direct and Indirect Shares Held	Percentage of Shares to Total Outstanding Shares of the Bank
Richard M. Rodriguez	Non-Executive Director	5	237,119	5.58%
Roberto F. Salazar	Executive Director	1.5	1	0.00%
Maximino A. Salang, Jr.	Non-Executive Director	15	490,883	7.42%
Atty. Ronald E. Alvizo	Non-Executive Director	4	13,266	0.40%
Alberto P. Capati	Non-Executive Director	4	96,880	2.89%
Lung Fai Chan	Non-Executive Director	5	294,559	4.61%
Bienvenido F. Manzares, Jr.	Non-Executive Director	0.5	1	0.00%

BOARD QUALIFICATION

RICHARD M. RODRIGUEZ

Chairman, Board of Directors
Age: 47
Nationality: Filipino

Chairman Rodriguez holds a Bachelor's degree in Accountancy from Southwestern University, Cebu City. He obtained a Bachelor of Laws degree in 2009 and a Master in Management degree in 2011.

Mr. Rodriguez has substantial banking experience being a former Branch Manager of Merchants Bank and Consumer Lending Head of Insular Savings Bank.

He is now engaged in various business endeavors such as the academe, construction, and financing operation.

At present, Director Rodriguez is the administrator of First Chinese Royal Academy, and a director of Fastway Construction and Fastway Finance.

ROBERTO F. SALAZAR

Executive Director
Age: 53
Nationality: Filipino

Director Salazar is currently the President and Chief Executive Officer of Enterprise Bank, Inc. Employees admiringly call him "Sir Boyet."

He holds a Bachelor of Science in Commerce major in Accounting. He is a Certified Public Accountant.

Director Salazar is a seasoned bank employee. His almost 30 years of experience in the banking industry is spent mostly at managerial and executive levels.

Director Salazar assumed the executive post since 2020.

MAXIMINO A. SALANG, JR.

Director
Age: 67
Nationality: Filipino

Director Salang holds a degree in Bachelor of Science in Business Administration major in Marketing from Southwestern University, Cebu City.

He is an accomplished businessman in Davao City engaged in various business such as construction, heavy equipment rental, banana plantation export production, and container yard operation.

Presently, Director Salang is the president of Maxan Trucking Services, Inc. and a director of TAGDECOR/CHEMWOOD.

He has been a member of the Board of Directors of EBI for 14 years, and once held the chairmanship post.

ATTY. RONALD E. ALVIZO

Director
Age: 54
Nationality: Filipino

Director Alvizo is a graduate of Bachelor of Science in Economics from the University of Mindanao. He finished his Bachelor of Laws from Ateneo De Davao University in 1995. Atty. Alvizo also holds a Master in Entrepreneurship degree from the Asian Institution of Management (AIM) Manila.

Director Alvizo is a lawyer with 14 years of experience in microfinance and rural banking operations. His expertise lies in the areas of rural financing, product development and implementation, corporate planning, banking and corporate law.

He was one of the pioneering organizers of the Mindanao Microfinance Council, an organization of microfinance institutions working towards the professionalism of the industry.

He served as Executive Director of Enterprise Bank, Inc. for more than 10 years.

ALBERTO P. CAPATI

Director
Age: 70
Nationality: Filipino

Director Capati holds a Bachelor of Arts degree with majors in Management Engineering and General Studies from the Ateneo de Manila University. He has a Master in Business Administration from De La Salle University and a Diploma in Regional Industrial Development.

He was formerly the President and Chief Executive Officer of Enterprise Bank, Inc. from 2018 to the early part of 2020. Before his stint as a bank executive, he was an independent director for 3 years.

Director Capati has plenty of international experience in training and consultancy, particularly in the field of enterprise and entrepreneurship development, business development services, and technical-vocational education and training.

LUNG FAI CHAN

Independent Director
Age: 61
Nationality: Filipino

Director Chan holds a degree in Architecture from the University of Sto. Tomas.

Director Chan is an experienced businessman engaged in the fields of manufacturing and trading. Currently, he is the President of Fongson Consumer Products Corp.

He was one of EBI's independent directors since January 19, 2017.

BIENVENIDO F. MANZARES, JR.

Independent Director
Age: 53
Nationality: Filipino

Director Manzares holds a Bachelor's degree in Development Studies from the University of the Philippines-Manila and a Master's degree in Development Economics from UP-Diliman School of Economics.

He has extensive experience in training, research, policy planning and development, project programming, and project evaluation in various fields such as agriculture, the environment, health, education, corporate rehabilitation, and infrastructure development.

Among his various significant accomplishments in Development Economics was a government consultancy position for the Office of the Presidential Adviser on Food Security by providing such office of policy briefs and feasibility studies on food security.

Mr. Manzares has various study tours in Thailand, China, Vietnam, and Palau.

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

Name of Directors	Board of Directors		Audit, Risk, and Compliance Committee		Executive Committee		Credit Committee		Related Party Transactions		Asset/Liability Committee	
	7 Meetings		4 Meetings		11 Meetings		10 Meetings		2 Meetings		12 Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
1 **Richard M. Rodriguez** *Chairman of the Board May 2021 onward*	6	86%	**	**	10	91%	10	100%	**	**	12	100%
2 **Maximino A. Salang Jr.**	7	100%	4	100%	11	100%	10	100%	**	**	11	92%
3 **Atty. Ronald E. Alvizo**	7	100%	**	**	11	100%	10	100%	2	100%	12	100%
4 **Alberto P. Capati**	6	86%	**	**	11	100%	10	100%	**	**	12	100%
5 **Lung Fai Chan**	7	100%	4	100%	11*	100%	10*	100%	2	100%	12	100%
6 **Roberto F. Salazar**	7	100%	**	**	11	100%	10	100%	**	**	12	100%
7 **Bienvenido F. Manazares, Jr.** *Independent Director May 2021 onward*	4	100%	2	100%	1*	100%	**	**	1	100%	**	**
8 **Manuel T. Sia, Jr.** *Independent Director/Chairman of the Board until May 2021*	2	100%	2	100%	3*	100%	**	**	1	100%	4	100%
Total Number of Meetings Held	**46 MEETINGS**											

* Guest only

** Not applicable

EXECUTIVE OFFICERS / SENIOR MANAGEMENT

Executive Group

ROBERTO F. SALAZAR
President / CEO
53, Filipino

Mr. Salazar is a Certified Public Account. He has extensive experience in the industry having been deeply involved in both deposit and lending operations given his almost 30 years of banking experience.

JOY G. POLITICO
Treasurer and Chief Financial Officer
45, Filipino

A certified Public Accountant, she finished a Bachelor of Science in Accountancy, cum laude, and a Master in Business Administration both from the Ateneo de Davao University.

Before joining Enterprise Bank, Inc., she handled various significant posts in Punongbayan & Araullo.

GILBERT D. YU
Head, Retail Banking Group
52, Filipino

Mr. Yu earned a Bachelor of Science degree in Computer Engineering from the University of San Carlos.

He has extensive experience in the financial sector spanning almost 30 years. Before joining Enterprise Bank, he was the President/Manager of Rural Bank of Ronda, Inc.

CRISANTO P. TENIO
Head, Credit and Collection Department
42, Filipino

Mr. Tenio has a Bachelor's degree in Banking and Finance from St. Joseph College.

Prior joining EBI, he was with Eastwest Rural Bank (formerly Greenbank) holding a managerial post in the loans department and with Wealth Bank, he held the Product Head position under the Sales/Loans Department.

Executive Group

GLENN C. GENOGUIN
Head, Information and System Technology Department
45, Filipino

Mr. Genoguin finished his Computer Programming degree from the Computer Programming Operations & System Technology Institute.

Before his IT management stint with AMA Computer College from 2018 to 2020, he was a programmer and a Development Unit Head for City Savings Bank and Wealth Bank, respectively.

GLADYS MAE HONQUILADA
Head, Human Resources and Management Department
29, Filipino

Ms. Honquilada has a Bachelor of Arts degree in Psychology from the University of Immaculate Conception.

Ms. Honquilada has been in the Human Resources field for 5 years with experience in 2 major companies before joining the Bank in 2019. Currently, she is pursuing graduate studies in the field of Human Resources.

ATTY. CLAIRE MARIE B. MAURO
Counsel, Legal Department
44, Filipino

Atty. Mauro has a Bachelor's degree in Agriculture from the University of the Philippines - Los Baños. She also earned a degree in law from the Ateneo de Davao University. She was admitted to the Philippine Bar in 2014.

Atty. Mauro is a practicing lawyer in Davao city.

Control Group

JENISIE D. POROT
Head, Compliance Department
31, Filipino

Ms. Porot is a Certified Public Accountant earning a degree in Accountancy from the University of Mindanao-Tagum College.

Before joining the Bank in 2015, she handled accounting posts in two private companies after more than two years experience as an internal auditor of Rural Bank of Kapalong, Inc.

AVA VIERRA P. VIEJO
Head, Risk Management Department
43, Filipino

Ms. Viejo holds a Bachelor of Science degree in Commerce from the Ateneo de Davao University.

She has 17 years of banking experience with exposure in various areas such as bank operations, administrative support, sales, credit, and compliance management.

IAN Y. CAANGAY
Officer-in-charge, Internal Audit Department
42, Filipino

Mr. Caangay holds a degree in Accountancy from the Ateneo de Davao University and earned graduate units in Master in Information Technology from the University of Southeastern Philippines.

Mr. Caangay is in the banking industry since 2003. His years of banking experience are mostly exposed in the areas of Audit and Information Technology management.

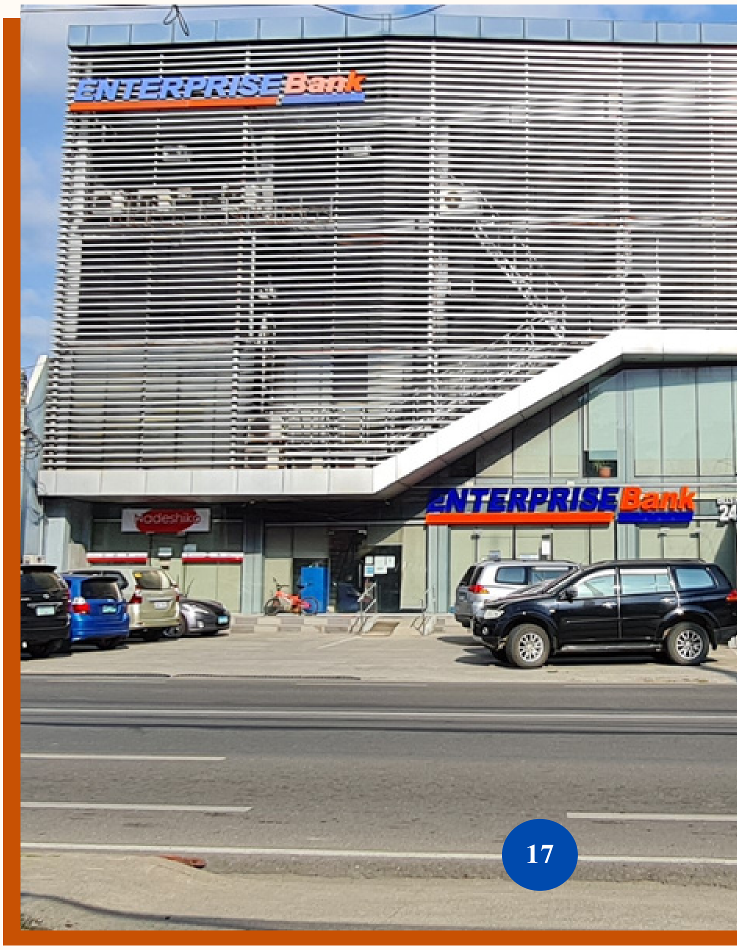
BOARD LEVEL COMMITTEES INCLUDING MEMBERSHIP AND FUNCTION

AUDIT, RISK, AND COMPLIANCE (ARCCo)

The Audit, Risk Management, and Compliance Committee have the following duties and functions:

- Provide functional supervision over the Internal Audit Department, Risk Management Office, and Compliance Management Office to ensure effective and efficient performance of their functions;
- Assess the reports of the three units to undertake timely and effective actions on issues identified;
- Ensure that review of the effectiveness of the Bank's internal controls, risk management, and compliance activities are connected at least annually;
- Establish and maintain a system whereby officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in all areas of the Bank's operations of persons or groups that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints;
- Assess the organizational structure and staffing of the Internal Audit, Risk Management Office and Compliance Department, subject to the Bank's standard guidelines, for the effective performance of their

Chairperson	Bienvenido F. Mazares, Jr.
Member	Lung Fai Chan
Member	Maximino A. Salang, Jr.
Member	Jenisie D. Porot Head, Compliance Dept.
Member	Ava Vierra P. Viejo Head, Risk Management Dept.
Member	Ian Y. Caangay Officer-in-charge, Internal Audit Dept.



EXECUTIVE COMMITTEE (EXECOM)

The Board-level Executive Committee has the primary purpose of assisting the Bank's Board of Directors in fulfilling its oversight responsibilities specifically:

- To serve as the core of the strategic planning committee when planning is undertaken. It is responsible for setting up the budget for the Bank and approves any proposed suggestions or amendments for the budget;
- To review the bank's performance vis-à-vis quarterly and annual goals. It discusses the analyses of the Bank's financial and operational performance using financial data, against the target to wit:
  - Growth
  - Efficiency
  - Profitability
  - Asset Quality
  - Productivity

- To develop and recommend policy for presentation to Board, specifically:

  a) Decide and propose to the Board through the President, revisions to policies or new policies as may be appropriate to advance the bank nearer its goals;

  b) Instruct Product Development and Policy Management Office to draft, improve, revise or change applicable Bank policies and procedures being employed;

  c) If Committee finds the proposal acceptable, the same is prepared ready for Board approval. Members must carefully consider the implications of said proposal on other operations and must decide on the premise that benefits outweigh the cost involved.

- To consider, resolve, and manage the important business issues facing the Bank including all key areas of risk relevant to the business of the Bank.
- Where appropriate, the Committee shall receive reports concerning matters arising in connection with the Bank's public disclosures and the implementation and evaluation of internal controls;
- To review and approve contracts; and
- To determine agenda for Board Meetings.

Chairperson	Roberto F. Salazar
Member	Richard M. Rodriguez
Member	Maximino A. Salang, Jr.
Member	Atty. Ronald E. Alvizo
Member	Alberto P. Capati
Regular Guest	Lung Fai Chan

CREDIT COMMITTEE (CRECom)

The Credit Committee, as duly constituted by the Board of Directors, is primarily responsible for the following:

- Design and recommend lending policies that seek to be responsive to the needs of the target market while satisfying the bank's projected financial outcome and social mission;

  It must take into account the results of environmental scanning, market assessment, competition check, or any other forms of a market review conducted specifically to assist the Bank in ascertaining which products to develop, launch, and offer; and whether these products provide reasonable assurance to the Bank of a competitive return on investment;

- Board Crecom shall establish a strict policy on large exposure by defining the ceiling of loan granted to a single borrower or entity or even related parties but not to exceed what is prescribed by the regulations set by the Bangko Sentral ng Pilipinas (BSP). It shall likewise agree on the maximum concentration attributed to the physical location, industry, or even by product. The Board CreCom should have a wider knowledge of the risks inherent in the segment of the market it aims to serve, the existing and foreseen threats in the industry where the market belongs, including the probability of fortuitous events to occur in a place where the borrowers operate or reside;

- The Board CreCom shall seek periodic advice from its Compliance Officer or Unit on the applicable and mandatory requirements as regards provisioning against bad debts when reviewing observance of the regulations. Loan loss provisioning shall at all times be no less than what is prescribed by the Bangko Sentral ng Pilipinas;

- Pricing of loans is one top priority of the Board CreCom for approval by the BOD. The guidelines should specify the grounds for the recommended rates. CreCom should possess good knowledge in the pricing of loans given the financial costs, the inherent credit risks, and the desired spread. It shall secure information from ALCo through the Treasury Department on the existing funding costs as the determinant in setting the floor prices of services offered.

Chairperson	Roberto F. Salazar
Member	Richard M. Rodriguez
Member	Alberto P. Capati
Member	Maximino A. Salang, Jr.
Member	Atty. Ronald E. Alvizo
Regular Guest	Lung Fai Chan

The Board CreCom must be aided by an account profitability computation worksheet that would net out from the gross yield all costs related to the account proposal to arrive at the net yield per account;

- The Board CreCom shall require submission of monthly reports on the quality of loan portfolio and the plan of action to improve performance from the Heads of Microfinance, Consumer Loans, and Enterprise (Business) Loans;

- The Board CreCom should also conduct regular monitoring of past due accounts and evaluate the effectiveness of ROPA management handled by the Legal Department. An annual target to reduce the level of past due and improve disposal of ROPA should be set at every beginning of the year.

- The decision reach on each loan case shall reflect the consensus among the members. The parameters set for evaluation of proposals include a review of identified business risks: supply, demand, production, process, customer relations, sources of funds, liquidity management, succession, planning, among others; and borrower's background check and credit investigation: negative files, lawsuits, relationship with suppliers and creditors, etc.;

The Board CreCom shall be aided by a Borrower's Risk Rating (BRR) method using a scorecard to outline the criteria for measuring an applicant's creditworthiness.

- The Board CreCom must be updated on the ever-changing current market conditions, its challenges, and how it would affect the bank's risk exposure.

RELATED PARTY TRANSACTIONS COMMITTEE (RPTCo)

The RPTCo assists the Board of directors in fulfilling its oversight responsibilities in ensuring that transactions with related parties are handled in a sound and prudent manner, thus, the RTPCo shall:

- Evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with the counterparties (from non-related to related and vice versa) are captured;
- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, commissions, interest rates, fees, tenor, collateral equipment) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that as a result of or in connection with the transactions;
- Approve all related party transaction that falls below the materiality threshold, however, all approval made by RPT Committee is subject to BOD confirmation;
- Ensure that appropriate disclosure is made and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures, and policies on conflicts of interest or potential conflict of interest;
- Report to the board of directors regularly the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties;
- Ensure that transactions with related parties, including the write-off of exposures, are subject to periodic independent review or audit process; and
- Oversee the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Chairperson	Bienvenido F. Mazares, Jr.
Member	Atty. Ronald E. Alvizo
Member	Lung Fai Chan

ASSET/LIABILITY COMMITTEE (ALCo)

The Asset/Liability Management Committee has been established to assist the Board of Directors in assessing the adequacy and monitoring of the implementation of the bank's Asset/Liability Management Policy and related procedures. Specifically, these duties and functions are the following:

- Ensure the development of an appropriate ALM Policy of the Bank. This policy will, among other things, set forth the Bank's asset and liability management general policy relating to liquidity, interest rate risk management, capital management, and investments. ALCo shall also implement additional policies and procedures relating to asset and liability management as may be consistent with the ALM Policy;

- ALCo shall review and discuss the ALM policy with management, and after taking into consideration any matters that the ALCo may deem advisable and appropriate, including management recommendations,the ALCo will annually recommend the ALM Policy to the Board of Directors for its approval;

- ALCo may also approve exceptions to the ALM policy to address specific conditions or circumstances that may arise from time to time;

- In terms of liquidity risks, ALCo shall:

  a) Review the current and prospective liquidity positions and monitor alternative funding sources;

  b) Review measurement reports on various risks that can be measured with a reasonable degree of effort. Compare simulated exposures of these risks to policy limits;

  c) Discuss and report on the impact of major funding shifts and changes in overall investment and lending strategies;

  d) Review the current and prospective capital levels (risk-based as well as net worth) to determine sufficiency concerning expected growth, interest rate risk, price risk, and asset/mix quality;

e) Monitor the capital position of the bank and the capital management activities by the bank to ensure that capital levels are maintained following regulatory requirements and management directives.

- In terms of interest rate risks, ALCO has the following duties:

  a) Review the outlook for interest rates and economy at local, regional, and international levels;

  b) Review maturity/repricing schedules with particular attention to the maturity distribution of large amounts of assets and liabilities maturing (e.g. bills payable)

  c) Develop alternate strategies deemed appropriate, which take into account changes in:

    i, Interest rate levels and trends;
    ii. Deposit and loan products and related markets;
    iii. Banking regulations; and
    iv. Monetary and fiscal policy;

  d) Develop parameters for the pricing and maturity distributions of deposits, loans, and investments;

- In terms of other risks, ALCo's duties are:

  a) Perform an independent review (using internal audit staff) of the validation and reasonableness of the input, assumptions, and output of the bank's asset/liability management model or procedures;

  b) Coordinate an ongoing appropriate education program on the subject ALM for the ALCo members, senior management, and the Board of directors;

- ALCo shall also ensure that it is aware of the overall financial performance of the Bank and therefore will keep abreast of significant changes/trends in its financial results. In this regard, ALCo shall:

a) Review actual net interest income and asset/liability distributions versus budget;

b) Measure performance against established standards and, if appropriate, against peer group data;

c) Review the level and makeup of non-earning assets;

d) Review the liquidity and contingency funding conditions of the Bank.

- Given the importance of the ALCo in the management of the Bank's balance sheet and related earnings stream, the ALCo shall also review the bank's annual budget.

Chairperson	Richard M. Rodriguez
Member	Roberto F. Salazar
Member	Maximino A. Salang, Jr.
Member	Alberto P. Capati
Member	Atty. Ronald E. Alvizo
Member	Lung Fai Chan

PERFORMANCE ASSESSMENT PROGRAM

It is the policy of Enterprise Bank, Inc. to provide feedback, review progress, identify gaps and address potential issues for the advancement of its employees and even members of the Board.

Members of the Board undergo performance review through annual self-assessment of themselves through an adopted performance self-assessment questionnaires which will help them assess their competence and independence as a body, commitment to corporate governance, transparency, committee activity, and audit and risk oversight. They also conduct a self-assessment review of their Board committee memberships aided by questionnaires aimed to determine the effectiveness and fitness of the committee composition, processes undertaken by the committee in the course of conducting their oversight functions, and the tasks undertaken by the committee based on Board's mandate.

Aided with the performance management tools and assessment questionnaires, the Bank led by its Human Resource Management Department ensures the conduct of periodic performance reviews (monthly, quarterly, semi-annual, and annual) as it deemed fit and applicable to its employees for regularization, promotion, transfer to other fields, annual salary review, succession planning and training and development.

ORIENTATION AND EDUCATION PROGRAM

It is a corporate vision to accord deserving employees a venue for professional advancement through training and specialized courses in the field of expertise and continuing education during off-work hours which is deemed beneficial to both the individual and the Bank.

For its employees to become effective in their jobs, the bank regularly conducts training needs analysis to know what are the skills needed for enhancement. The bank then provides both external and internal training as deemed necessary. Employees who are recommended to be sent to external training are granted full assistance.

Members of the Board are required to attend external training related to Corporate Governance, AMLA seminars, and the like. Participation in meetings initiated by the Chamber of Thrift Banks was also instrumental for the Board of Directors to be kept abreast of the latest trends in the banking industry and on updates in the regulations.

The Bank also takes advantage of the technology in its launching of webinars. Through webinars, employees are provided with reading materials, audiovisual presentations, and educational videos to get updated and well-informed of the latest trends pertinent to enriching skills and competencies gearing towards productivity and efficiency.

RETIREMENT PROGRAM

Enterprise Bank, Inc. is concerned with the welfare of its employees and ensures the provision of benefits even during separation. It is the policy of the bank to comply with the requirements of the law to provide employees retirement benefits subject to the terms and conditions of the established Retirement Program.

The plan established is a non-contributory retirement plan which provides for post-employment or retirement benefit plan and termination benefit plan.

The retirement benefits are provided to employees through a defined benefit plan that defines the amount of retirement benefit an employee will receive upon retirement, dependent on the age, years of service, and salary. The bank's defined benefit retirement plan covers all regular full-time employees whose retirement benefits are paid in lump sum payments at the time of the allowable retirement age of 60 or 65. Early retirement at the age of 50--considered a management-initiated program--follows a different set of terms and conditions approved by the management and the board.

Moreover, termination benefits are payable when employment is terminated by the bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal, or (b) providing termination benefits as a result of an officer made to encourage voluntary redundancy.

Further, voluntary separation benefits are also considered by the bank's retirement plan for employees who have served at least five consecutive years following the vesting schedule outlined in the program; while employees separated because of death or disability are granted with all accrued retirement benefits plus a fixed amount.

Members of the Board holding management positions, and forms part of the manpower complement of the bank, are qualified for the retirement benefit plan in place; otherwise, he/she shall receive benefits prescribed in the bank's by-laws.

A Director of the bank is required to serve at least one year from the date of his/her election. Unless a director resigns, is removed from office, or unable to act because of death, disqualification, or otherwise, he/she shall hold office during the term for which he/she was elected until his qualified successor is elected in the next annual meeting of the stockholders.

REMUNERATION SYSTEM

Enterprise Bank, Inc.'s By-laws provides no compensation to be paid to any director as such but the director of the Bank may be allowed reasonable honoraria for actual attendance at meetings to defray fare and other actual expenses incurred in connection thereto and in recognition of the valuable management time devoted.

Moreover, the salaries of the executive officers of the Bank are fixed following the remuneration system approved by the Board of Directors. For the year 2019, among the highest-paid officers are personnel handling the positions of President and CEO, Retail Banking Group Head, and Chief Financial Officer.

At all times, the Bank adheres to labor standards in the payment of wages and benefits to its employees. Its compensation and incentive structure is by mandates set by the regulators and the Bank's By-laws. The bank is concerned with the welfare of its employees and ensures the provision of competitive and equitable salaries.

As a standard basis in classifying the positions, the Bank adopts the Point Rating System Method in assessing the value of jobs available in the organization and in pricing them correspondingly following defined compensable factors. Under this method, jobs are taken down based on various identifiable factors.

The pay scale is divided into five (5) categories, namely:

1. Levels 1-4: Rank and File
2. Level 5-7: Supervisory
3. Levels 8-10: Managerial
4. Levels 11-13: Executives
5. Levels 14-16: C-level Executives

Each level has an established pay range for hiring, midpoint, and the maximum rate which serves as a guide for both Human Resources Management Department in determining the appropriate price for a new entrant or a newly promoted employee. Also provided are defined steps in each Rank for progressive salary movement where the granting of increase is not driven by promotion in rank but on consistently creditable performance within the established job perimeters.

Incentive Structure

The incentive structure varies considering the peculiarities in the department belonging to the business group and the defined performance parameters and standards set year-on-year. Overall, while the management certainly recognizes achievement beyond expectation, it also considers contribution to the bottom line in the administration of reward.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Related Party Transaction Committee (RPTCo) is mandated to meet once in a quarter or as it may deem necessary and appropriate. The Chairman of the Committee may call a special meeting whenever necessary, in which a presence of three (3) members shall constitute a quorum.

A notice of each meeting stating the date, time, venue, and agenda shall be forwarded to the members of the Committee at least three (3) working days before the meeting. The notice of the meeting shall be accompanied by the supporting reports that comprise the agenda.

The Committee may request any director, officer, or employee of the Bank, or other persons whose advise, counsel, or information would be necessary to aid in effective decision-making.

Within 20 calendar days after the end of the reference quarter, all approved material RPTs, including all DOSRI transactions, should be reported to BSP. Updating and reviewing the inventory of related parties of the bank should be done annually to capture organizational and structural changes of the bank and its related parties. The inventory of related parties is to be updated by Compliance Department.

Material Related Party Transactions are specified in the Bank's 2021 Audited Financial Statement under note 19.

SELF-ASSESSMENT FUNCTION

Internal Audit Department

Internal Audit Department (IAD) assists the Bank and the Board in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. It is mandated to ensure adherence to Board-approved policies and procedures by all operating units. The head of the Internal Audit Department ensures that the internal audit function complies with sound internal auditing standards. The department's recommendations to improve operations are timely discussed and coordinated with the Management through the President and CEO where progress reports of Management action plans are discussed, deliberated, and reported during ARCCo meetings.

Compliance Department

The Compliance Department functions independently and reports directly to the Board through ARCCo to oversee and coordinate the implementation of the bank's compliance system. Led by the Head of the compliance department, the department's primary duties include the identification, monitoring, and controlling of compliance risk.

Risk Management Office

The Risk Management Office is responsible for the development and oversight of the institution's risk management program. It oversees the system of limits to discretionary authority that the Board delegates to management. It also ensures that the system remains effective and that established limits under existing policies are observed and if there is breach, monitor the immediate corrective actions it has recommended.

DIVIDEND POLICY

Enterprise Bank's dividend policy is determined by the agreement of the Board of Directors. Dividends shall be distributed to stockholders, either in cash or stock or both, subject to the policy and pertinent rules and regulations of the Bangko Sentral ng Pilipinas. Under the Bank's By-laws, the dividends to be distributed are the remaining sums after the Bank's earning are appropriately applied for a capital.

CORPORATE SOCIAL RESPONSIBILITY

Despite the limitations in resources and mobility brought by local and government regulations following pandemic restraining measures, the Bank was still able reach out to select primary public schools in the rural communities, particularly the Bukidnon province and Caraga region in Mindanao, and extend assistance to teachers and faculties by providing them with materials for the production of learners modules.

The Bank is hoping that for the next year, it can provide wider reach to the community as it desires to share by transferring its output in another form that gives greater benefit and welfare, especially to the younger generation.

CONSUMER PROTECTION PRACTICES

Consumer protection is regarded as the core function complementary to BSP's prudential regulation and supervision, financial stability, financial inclusion, and financial education agenda. Hence, all BSP supervised institutions are mandated to follow at least the minimum guidelines for institutionalizing consumer assistance mechanisms in their operations.

In view of Circular No. 857 series of 2014, for the protection of Enterprise Bank, Inc. and to assure that every customers' needs are met and are satisfied with the services they receive, the Bank created the Consumer Assistance Management System (CAMS).

The Board's responsibility to provide effective recourse for the financial consumer is depicted in the consumer assistance policies and procedures embodied in the CAMS and engendered in the bank's day-to-day operations. The CAMS also advances transparency, fairness, and ease of access in financial transactions including the resolution of complaints.

The Senior Management is responsible for the effective implementation of the CAMS and the adoption of the established risk management system tools and practices. This responsibility is further delegated to the Consumer Assistance Officer who monitors the consumer assistance process, analyzes the nature of complaints, develops recommendations and solutions, and reports to Senior Management and the Board, through the ARCCo, the status of complaints.

At the branches and offices, personnel designated to perform consumer assistance activities submits complaints reports to the Consumer Assitance Officer. They are also provided with appropriate training for the job to be equipped with knowledge on the structure and implementation of the bank's consumer assistance mechanism.

To properly address and document the complaints raised by our financial consumers, the bank instituted the following channels for the proper attention to issues:

1. Clients are welcome to any of the bank's branches where our Branch Operations Officer (BOO) is ready to listen and document the issues concerning the client's financial transactions. If the issue(s) can be resolved within the BOO's level, the latter shall resolve the same while putting into record the resolution provided. The BOO should endorse the documented complaint and resolution to the Consumer Assitance Officer.
2. Financial consumers have the alternative of raising financial transaction-related issues via electronic mail at customercentral@enterprisebank.ph where an attending Consumer Assistance Officer is ready to answer complaints and inquiries with proper documentation.
3. Financial consumers may also raise their complaints via registered mail addressed to or by a phone call—

Address:

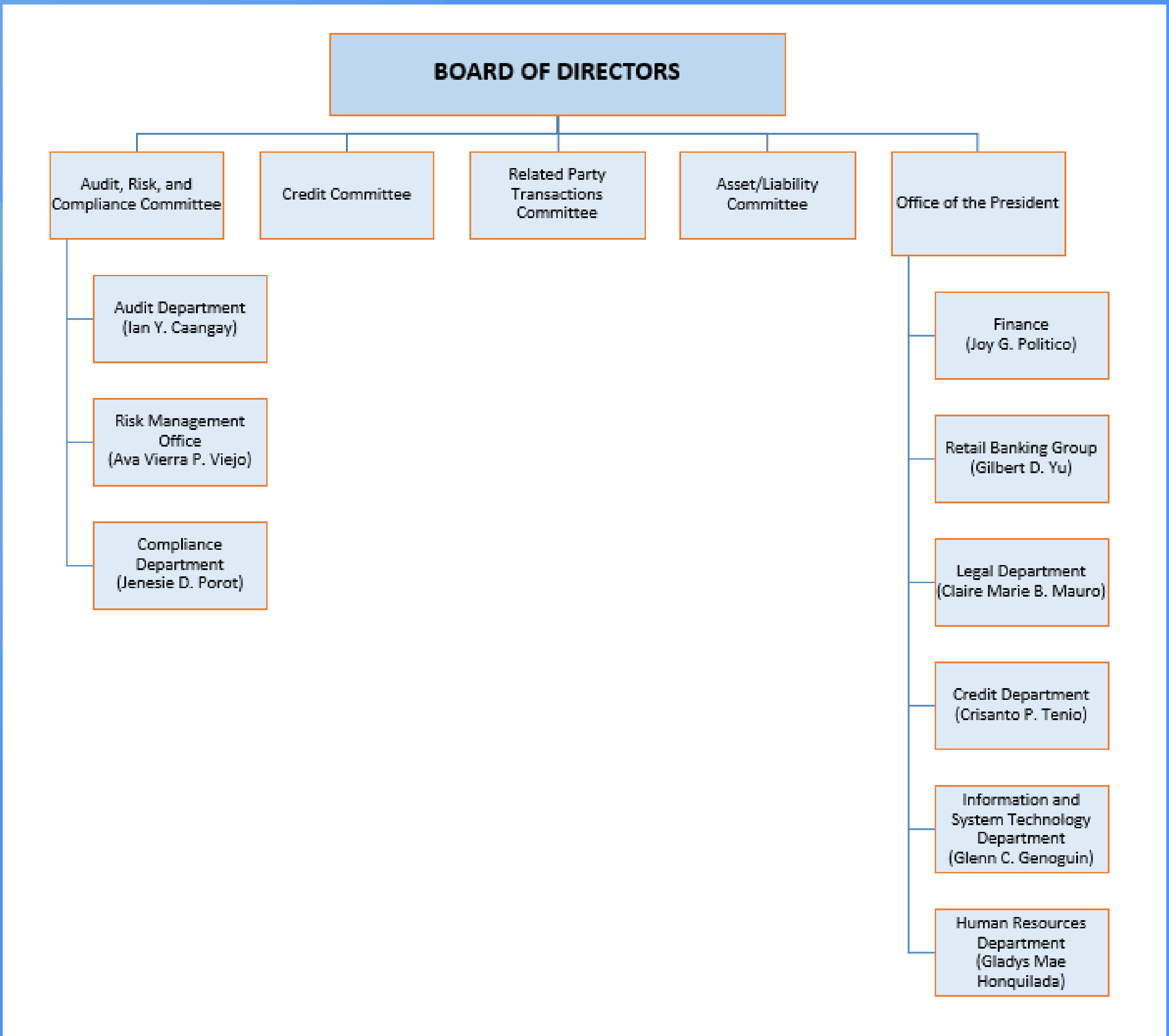
Consumer Assistance Officer
Enterprise Bank, Inc.
Km. 5, Buhangin
8000 Davao City

Telephone:

(082) 225-8892 loc. 309

CORPORATE INFORMATION

ORGANIZATIONAL STRUCTURE



MAJOR STOCKHOLDER

Name	Nationality	Percentage of Stockholding	Voting Status
Ignacito U. Alvizo	Filipino	24.25%	Voting

PRODUCTS AND SERVICES OFFERED

On Products

Enterprise Loans

Secured loan offering for business expansion and purchases related to business operation such as supplies, inventories, equipment, and other fixed assets.

Back-to-back Loans

Hand-out loan granted to existing clients against his/her deposit account with the Bank.

Loans Against ADB on Deposit

Designed to assist thriving small entrepreneurs who are at the same time existing depositors of the Bank.

Consumer Loans

Payroll-based consumption loan for government employees.

PRODUCTS AND SERVICES OFFERED

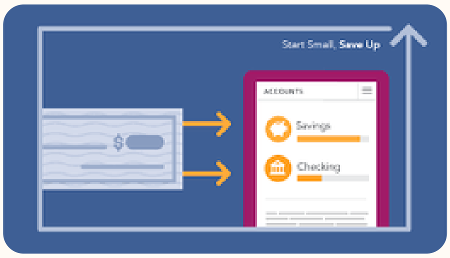
On Services

Regular Time Deposit

This deposit is supplied with Certificate of Time Deposit with term options of 30, 90, 180, or 360 days. Minimum deposit required is 5,000 with variable interest depending on amount and term.

TD5
(5-year Time Deposit)

This deposit is supplied with Certificate of Time Deposit with term of 5 years, tax exempt. Minimum deposit required is 500,000 with variable interest depending on amount and term.



Automatic Transfer of Deposit Account

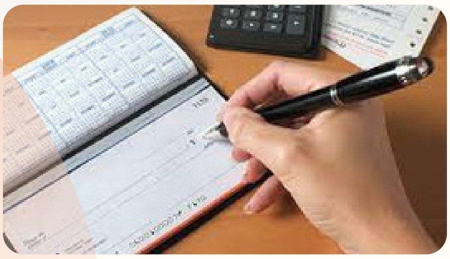
Minimum deposit required for individual account is 5,000 and 10,000 for corporate accounts.

Basic Savings Deposit

This deposit may come in either passbook or ATM card with NO maintaining balance required. Minimum deposit amount is 100 peso with 0.10% annual interest rate.

PRODUCTS AND SERVICES OFFERED

On Services



Current/Checking Account

This deposit product is also known as checking or demand deposit. This has minimum required amount of 3,500 for individual and 10,000 for corporate.

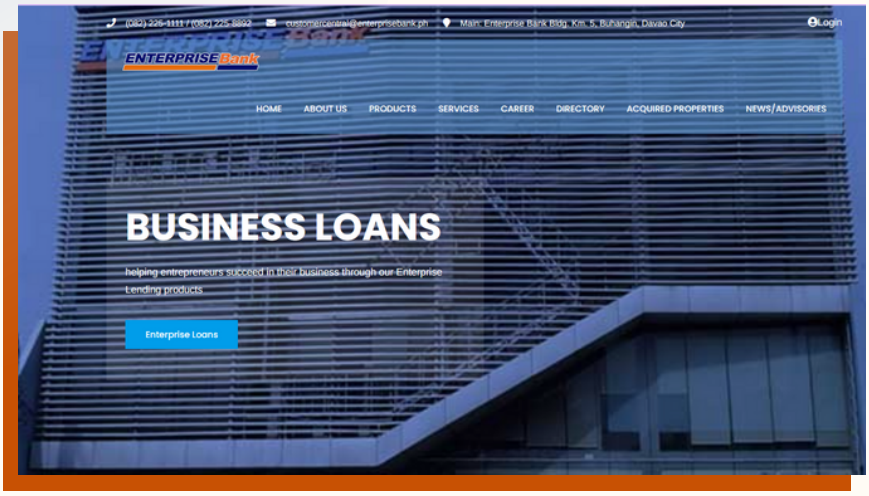
Super Savings Account

This product comes with a passbook. Interest rate will be incurred if monthly ADB exceeds 300,000 following treasury Bulletin. An additional interest of 0.5% is incurred if no withdrawals made during the month.

Super Checking Account

This account comes in passbook, ATM and check book designed for individual depositors only. Minimum amount of deposit required is 5,000.

BANK'S WEBSITE



https://www.enterprisebank.ph/

DIRECTORY OF BRANCHES

Branch	Address	Province
Aras-asan	Aras-asan, Cagwait, Surigao del Sur	Surigao del Sur
Barobo	Poblacion, Barobo, Surigao del Sur	Surigao del Sur
Bayugan	Yakal Street, Taglatawan, Bayugan City, Agusan del Sur	Agusan del Sur
Bislig	Abarca Street, Mangagoy, Bislig City, Surigao del Sur	Surigao del Sur
Buhangin	Km. 5, Buhangin, Davao City	Davao City
Butuan	Ground floor, Intino Building, Aquino Avenue, Brgy. Bayanihan, Butuan City, Agusan del Norte	Agusan del Norte
Cagayan de Oro	Doors 3 & 4, G/F RMR Diamond Residences Bldg., Tomas Saco St., Cagayan de Oro	Misamis Oriental
Cateel	Castro Avenue, Poblacion, Cateel, Davao Oriental	Davao Oriental
General Santos	Ground Floor, RDRDC Bldg., Magsaysay Avenue corner Salazar Street, General Santos City	General Santos City
Gingoog	Brgy. 22, National Highway, Gingoog City, Misamis Oriental	Misamis Oriental
Hinatuan	Hinatuan, Surigao del Sur	Surigao del Sur
Iloilo	City Time Square, Gaisano City 2, Benigno Avenue, Diversion Road, Mandurriao, Iloilo City	Iloilo
Lianga	Poblacion, Lianga, Surigao del Sur	Surigao del Sur
Madrid	Corner Guillen-Arreza Streets, Brgy. Quirino, Madrid, Surigao del Sur	Surigao del Sur
Mandaue	City time Square Phase II, Mantawe Avenue, Barangay Tipolo, Mandaue City, Cebu	Cebu Province
Mati	Door 10 MJI Building, Rizal Extension, Mati City, Davao Oriental	Davao Oriental
Matina	DBC McArthur Highway, Matina, Davao City	Davao City
Nabunturan	Purok 1, Nabunturan, Compostela Valley, Davao de Oro	Davao de Oro
Panabo	Ground Floor, Centino Realty, Quezon Street, Sto. Nino, Panabo City, Davao del Norte	Davao del Norte
San Francisco	Quezon St., San Francisco, Agusan del Sur	Agusan del Sur
Surigao	Ground Floor, CML Building, Amat Street, Washington, Surigao City	Surigao del Norte
Tagum	Door Nos. 3 & 4, AAC Bldg., No. 1 Circumferential Road, Tagum Public Market, Magugpo West, Tagum City, Davao del Norte	Davao del Norte
Talisay	National Highway, Lawa-an I, Talisay City, Cebu	Cebu Province
Tandag	Hypermart, Navales Extension Road, Bag-ong Lungsod, Tandag City, Surigao del Sur	Surigao del Sur
Trento	Unit # Door 1 Ground Floor, SKS Commercial Building, Rizal St., Purok 6, Poblacion, Trento, Agusan del Sur	Agusan del Sur
Ronda	Villanueva Bldg., Centro Poblacion, Ronda, Cebu	Cebu Province
Valencia	G. Lavina Avenue, Guinoyoran Road, Valencia City, Bukidnon	Bukidnon
Tacloban	Unit B M Block Bldg., Marasbaras St., Brgy. 77, Tacloban City, Leyte	Leyte
Bacolod	Ground Floor, GA Esteban Bldg., Brgy. 19, Lacson Street, Bacolod City, Negros Occidental	Negros Occidental

Financial Statements of

Enterprise Bank, Inc. (A Rural Bank)

December 31, 2021 and 2020

And

Report of Independent Auditors

QUILAB & GARSUTA
CERTIFIED PUBLIC ACCOUNTANTS

quilabgarsuta.com

ENTERPRISEBank
A Rural Bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR ANNUAL INCOME TAX RETURNS

The management of Enterprise Bank, Inc. (A Rural Bank) is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2021. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the valued added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, management affirms that the attached audited financial statements for the year ended December 31, 2021, and the accompanying Annual Income Tax Return are in accordance with the books and records of Enterprise Bank, Inc. (A RuralBank), complete and correct in all material respects.

Management likewise affirms that:

a) The Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
b) Any disparity of figures in the submitted reports arising from the preparation of the financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules have been reported as reconciling items and maintained in the Bank's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances, and
c) Enterprise Bank, Inc. (A Rural Bank) has filed all applicable returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

April 12, 2022, Buhangin, Davao 'del, Davao del Sur.

JOY G. POLITICO
Finance Head

ROBERTO F. SALAZAR
President and Chief Executive Officer

RICHARD M. RODRIGUEZ
Chairman, Board of Directors

Enterprise Bank, Inc.
Poblacion Lianga, Surigao del Sur, Philippines 8307
Telephone Number (082) 300-4042

QUILAB & GARSUTA
Certified Public Accountants

quilabgarsuta.com

Accreditations, Expiry
PRC/BOA 7787, 07.05.23
BIR 16-007506-000-2022, 02.15.25
NEA 2020-12-00070, 12.10.23
7787-SEC Group B, 12.17.25
7787-BSP Group B, 12.10.25
7787-IC Group A, 12.10.25
CDA 119-AF, 03.01.24
MISEREOR

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Enterprise Bank, Inc. (A Rual Bank)

Qualified Opinion
We have audited the financial statements of Enterprise Bank, Inc. (A Rural Bank) which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to financial statements, comprising of a summary of significant accounting policies and other explanatory notes (collectively referred to a 'financial statements').

In our opinion, except for the effects of the matters described in the *Bases for Qualified Opinion* Section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Enterprise Bank, Inc. (A Rural Bank) as of December 31, 2021 and 2020, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Bases for Qualified Opinion
The following form the bases of our qualified opinion:

(d) As explained in Note 5 to the financial statements, the 2020 financial statements were restated for the additional allowance for expected credit losses (ECL) representing a change in the accounting estimate of the adequacy of the 2019 and prior years' loan loss provisions, determined as at December 31, 2021, amounting ₱116,429,522. The booking of additional ECL increased the deferred tax assets account by ₱29,107,380 and reduced the opening balance of the 2019 surplus and undivided profits by ₱87,322,141. In accordance with PAS/IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* the effect of a change in an accounting estimate shall be recognized prospectively by including it in profit or loss in (a) in the period of the change, if the change affects that period only, or (b) the period of the change and future periods, if the change affects both. It is our opinion that the additional ECL should have been booked only in 2021.

(e) As also explained in Note 5 to the financial statements, the Bank did not book the required additional ECL at the end of 2021 amounting ₱98,366,498, computed based on the Appendix 15, '*Basic Guidelines in Setting Up of Allowance for Credit Losses' (Appendix to Sec. 143 on Credit Classification and Provisioning)* of the MORB.

(f) As also explained in Note 15 to the financial statements, the Bank did not book the provision for retirement benefits for 2021 amounting ₱3,202,344, resulting in the deficiency of the same amount of the actuarially-computed retirement benefit obligation at the end of 2021.

Had the Bank booked the required ECL as of December 31, 2021, and the retirement benefit expense for 2021, as explained in the preceding two paragraphs (items b and c), the Bank's reported profit for the year ended December 31, 2021, reported at ₱46,159,810, will reverse to a net loss of ₱30,016,822 (net of deferred taxes on the two provisions amounting ₱76,176,632). Its loans and other receivables as presented in the statement of financial position will be reduced by the booking of the required additional ECL of ₱98,366,498, and its retirement benefit obligation (under other liabilities) will be increased by the amount of additional retirement benefit obligation of ₱3,202,344. Corollary to the booking of the two provisions as explained in the foregoing, the Bank's deferred tax assets will be increased by the anticipated tax benefits of the additional ECL and retirement benefit obligation.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Quilab & Garsuta, CPAs
PTR No. 5222007 A
January 3, 2022
Cagayan de Oro City

April 12, 2022
Cagayan de Oro City, Philippines

STATEMENTS OF FINANCIAL POSITION

Enterprise Bank, Inc. (A Rural Bank)

December 31	**2021**	2020	2019
		(As Restated) (Notes 5, 8, & 9)	*(As Restated) (Notes 5, 8, & 9)*
ASSETS			
Cash and Cash Equivalents *(Note 4)*	**₱582,059,577**	₱420,391,686	₱412,201,202
Loans and Other Receivables – Net *(Note 5)*	**1,654,757,912**	1,413,548,635	1,327,326,640
Investments in Debt Securities – At Amortized Cost *(Note 6)*	**46,515,088**	39,548,428	38,305,317
Bank Premises, Furniture, Fixtures and Equipment – Net *(Note 7)*	**74,068,080**	63,174,980	74,376,888
Right-of-Use Asset – Net *(Note 7)*	**16,628,788**	12,670,939	10,928,079
Investment Properties *(Note 8)*	**115,068,066**	123,495,101	122,212,099
Other Assets *(Note 9)*	**106,212,887**	121,168,492	114,049,581
	₱2,595,310,398	₱2,193,998,261	₱2,099,399,806
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposit liabilities *(Note 10)*	**₱2,193,434,954**	₱1,868,906,030	₱1,670,829,913
Bills payable *(Note 11)*	**1,083,545**	46,922,058	200,153,168
Other liabilities *(Note 12)*	**127,081,325**	124,537,406	124,753,191
Lease liabilities *(Note 7)*	**18,422,293**	13,654,396	11,254,332
Total Liabilities	**2,340,022,117**	2,054,019,890	2,006,990,604
Shareholders' Equity			
Share capital *(Note 13)*	**358,925,400**	₱289,775,300	274,195,500
Reserves	**34,499,969**	34,499,969	35,966,279
Deficit *(Notes 5, 8 and 9)*	**(138,137,088)**	(184,296,898)	(217,752,577)
Total Shareholders' Equity	**255,288,281**	139,978,371	92,409,202
	₱2,595,310,398	₱2,193,998,261	₱2,099,399,806

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Enterprise Bank, Inc. (A Rural Bank)

Years Ended December 31,	**2021**	2020
INTEREST INCOME		
Loans *(Note 5)*	**₱242,125,000**	₱198,387,218
Bank deposits and investments in debt securities *(Notes 4 and 6)*	**3,162,838**	5,596,108
Total	**245,287,838**	203,983,326
LESS INTEREST EXPENSE		
Deposit liabilities *(Note 10)*	**59,985,974**	51,405,147
Bills payable *(Note 11)*	**1,241,528**	6,774,377
Total	**61,227,502**	58,179,524
NET INTEREST INCOME	**184,060,336**	145,803,802
PROVISION FOR IMPAIRMENT LOSSES	**8,260,000**	–
PROFIT BEFORE APPLICATION FEES AND OTHER INCOME	**175,800,336**	145,803,802
APPLICATION FEES AND OTHER INCOME *(Note 14)*	**96,636,550**	109,876,801
PROFIT BEFORE OTHER EXPENSES	**272,436,886**	255,680,603
OTHER EXPENSES		
Compensation and employees' benefits *(Note 15)*	**90,918,602**	81,620,954
Other operating expenses *(Note 16)*	**115,222,434**	112,556,282
Depreciation *(Notes 7 and 8)*	**21,971,358**	17,990,344
Total Other Expenses	**228,112,394**	212,167,580
PROFIT BEFORE INCOME TAX EXPENSE	**44,324,492**	43,513,023
INCOME TAX EXPENSE *(Note 17)*	**1,835,318**	(10,057,345)
PROFIT FOR THE YEAR *(Note 18)*	**46,159,810**	33,455,678
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be subsequently reclassified to profit or loss:		
Actuarial and re-measurement (losses) gain *(Note 15)*	**–**	(2,022,497)
Deferred income tax *(Notes 15 and 17)*	**–**	556,187
Net		(1,466,310)
COMPREHENSIVE INCOME FOR THE YEAR	**₱46,159,810**	₱31,989,368

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

Enterprise Bank, Inc. (A Rural Bank)

December 31	**2021**	2020
		(As Restated) (Notes 5, 8, & 9)
SHARE CAPITAL *(Note 13)*		
Preference Shares – ₱100 par value	**₱–**	₱–
Ordinary (Common) Shares – ₱100 par value		
Opening balances	**289,775,300**	274,195,500
Additional shares issued during the year	**69,150,100**	15,579,800
Closing balances	**358,925,400**	289,775,300
Total Share Capital	**358,925,400**	289,775,300
RESERVES		
Surplus Reserves	**28,430,427**	28,430,427
Accumulated Actuarial Gains		
Opening balances	**6,069,542**	7,535,852
Actuarial (loss) gain on defined benefit plan, net of tax effect *(Note 15)*	**–**	(1,466,310)
Closing balances	**6,069,542**	6,069,542
Total Reserves	**34,499,969**	34,499,969
DEFICIT		
Opening balances, as originally stated	**(96,974,757)**	(51,530,031)
Adjustments to restate beginning balances *(Notes 5, 8, and 9)*	**(87,322,141)**	(166,222,545)
Opening balances, as restated	**(184,296,898)**	(217,752,576)
Profit for the year	**46,159,810**	33,455,678
Closing balances	**(138,137,141)**	(184,296,898)
	₱255,288,281	₱139,978,371

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Enterprise Bank, Inc. (A Rural Bank)

Years Ended December 31,	**2021**	2020
		(As Restated) *(Notes 5, 8, & 9)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax expense	**₱44,324,492**	₱43,513,023
Add (deduct) adjustments for:		
Depreciation on bank premises and investment properties *(Notes 7 and 8)*	**15,323,304**	12,594,319
Depreciation on right-of-use assets *(Note 7)*	**6,648,054**	5,396,025
Provision for retirement benefits *(Note 15)*	**3,600,000**	3,600,000
Provision for impairment loan losses	**8,260,000**	–
Interest expense on lease liabilities *(Note 7)*	**1,324,952**	1,074,438
Operating income before changes in working capital	**79,480,802**	66,177,805
Add (deduct) changes in working capital, excluding cash and cash equivalents:		
Increase in loans and other receivables *(Note 5)*	**(249,469,277)**	(86,221,995)
Decrease (increase) in other assets *(Note 9)*	**18,733,074**	(15,527,377)
Increase in deposit liabilities *(Note 10)*	**324,528,924**	198,076,117
Decrease in other liabilities *(Note 12)*	**(1,056,081)**	(7,093,965)
Net cash provided by operations	**172,217,442**	155,410,585
Income taxes paid *(Note 17)*	**(1,942,151)**	(1,648,878)
Net Cash Provided from Operating Activities	**170,275,291**	153,761,707
CASH FLOWS FOR FINANCING ACTIVITIES		
Issuance of additional ordinary shares *(Note 13)*	**69,150,100**	15,579,800
Settlement of bills payable *(Note 11)*	**(45,838,513)**	(153,231,110)
Net Cash Provided from (Used in) Financing Activities	**23,311,587**	(137,651,310)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in investment properties *(Note 8)*	**4,245,266**	(1,851,942)
Increase in investments in debt securities *(Note 6)*	**(6,966,660)**	(1,243,111)
Sale (reclassification) of bank premises, furn., fixt. and equipment *(Note 7)*	**(2,580,689)**	5,376,123
Additions to bank premises, furn., fixt. and equipment – net *(Note 7)*	**(19,453,946)**	(4,387,724)
Payment of lease liabilities and interest *(Note 7)*	**(7,162,958)**	(5,813,259)
Net Cash Used for Investing Activities	**(31,918,987)**	(7,919,913)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**161,667,891**	8,190,484
OPENING CASH AND CASH EQUIVALENTS	**420,391,686**	412,201,202
CLOSING CASH AND CASH EQUIVALENTS *(Note 4)*	**₱582,059,577**	₱420,391,686

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Enterprise Bank, Inc. (A Rural Bank)
As of and for the Years Ended December 31, 2021 and 2020

Note 1
Organization

The Enterprise Bank, Inc. (A Thrift Bank) (to be referred henceforth as 'Bank') was originally organized on May 10, 1976, to engage and carry on the business of a Rural Bank. On June 28, 2012, the Securities and Exchange Commission approved the conversion of the Bank from a Rural Bank to a Thrift Bank. On July 24, 2012, the Bangko Sentral ng Pilipinas (BSP) granted the Bank the authority to operate as Thrift Bank. The Bank started operating as a Thrift Bank on October 1, 2012. On February 3, 2021, the Bank received its Certificate of Authority to Operate as a Rural Bank.

The Bank's registered office and principal place of business is located at Buhangin, Davao City, Davao del Sur. It operates twenty-eight (28) branches and two (2) branch lite units within the islands of Mindanao and Visayas.

Note 2
Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below.

Statements of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations-IFRIC, except for not booking additional allowance for expected credit losses as required under PFRS 9 *Financial Instruments* (See Note 5.) and the booking of additional retirement benefit obligation as actuarially computed. (See Note 15.)

PFRSs include statements named PFRSs and Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy (BOA) and adopted by Securities and Exchange Commission (SEC).

Because the Bank is a supervised financial institution (BSFI) by the Bangko Sentral ng Pilipinas (BSP), it also abides by the prudential regulations of BSP particularly those that are set forth in the Manual of Regulations for Banks (MORB), and all applicable BSP Circulars and accounting requirements. These regulations and requirements are substantially compliant with PFRSs.

In its Circular No. 494 dated September 20, 2005, BSP emphasized that, as a general rule, BSFIs shall comply in all respect with the provisions of PFRSs in preparing both their audited financial statements and the financial statements for prudential reporting. In its Circular No. 915 dated 05 July 2016 BSP clarified that deviations between local and international accounting standards only apply to the preparation of prudential reports to the BSP. The accounting treatment for prudential reporting aims to ensure that the financial statements provide a suitable basis for measuring risks and ratios of BSFIs.

The Bank prepares only a single set of audited financial statements for general use and for submission to BSP.

The preparation of the Bank's financial statements took into considerations deviations from PFRSs that are allowed by BSP for prudential reporting purposes but are incorporated in these financial reporting as explained in the following paragraphs.

- *Consolidation of Financial Statements*
  Under PAS 27, all bank/quasi-bank subsidiaries, regardless of type, are consolidated on a line-by-line basis. For prudential reporting purposes, however, financial allied subsidiaries, except insurance companies, are consolidated with the financial statements of the parent bank on a line-by-line basis. Non-financial allied subsidiaries and insurance subsidiaries, on the other hand, are accounted for using the equity method. This requirement has no impact on the Bank as it has no subsidiaries.

- *Provisioning Requirement*
  In preparing general purpose audited financial statements, BSFIs adopt the provisions of PFRSs in booking provisions for credit losses. For prudential reporting purposes, however, BSFIs are required to adopt the expected credit loss model in measuring credit impairment in accordance with the provisions of PFRS 9. BSFIs are also required to set up general loan loss provision (GLLP) equivalent to 1 percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. BSFIs are not required to provide a 1 percent (1%) GLLP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Allowance for credit losses for Stages 1, 2 and 3 accounts shall be recognized in the profit or loss statement. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GLLP required, the deficiency shall be recognized by appropriating the Retained Earnings (RE) account.

  The Bank generally follows the foregoing provisioning requirements for loans and discounts and adopted the provisions of PFRSs for the provisioning requirements of other financial instruments.

- *Deemed Cost of ROPA in Settlement of Loans*
  In computing the deemed cost of real and other properties acquired (ROPA), BSFIs are required to value the property at initial recognition based on the carrying amount of the asset given up in the exchange, i.e., carrying amount of the loan, instead of the fair value of the real and other property acquired. The Bank values its ROPA in accordance with this requirement; however, it has subjected the ROPA to impairment testing and disclosed their fair market values at reporting date.

- *Accrual of Interest Income on Non-Performing Loans*
  Interest income is allowed to be recognized on non-performing exposures for purposes of preparing the general purpose financial statements financial statements. For prudential reporting purposes, however, BSFIs are not allowed to recognize interest income on non-performing exposures, except when payment is received. The Bank follows this requirement in preparing these financial statements as dictated by prudence and conservatism.

New and Amended IFRS Standards that are Effective for the Current Year
The following Standards were developed and issued by the International Accounting Standards Board (IASB), an independent, private-sector body that develops and approves International Financial Reporting Standards (IFRSs). The IASB was formed in 2001 to replace the International Accounting Standards Committee (IASC).

These standards were reviewed by the Philippine Financial Reporting Standards Council (FRSC) which was established under the Implementing Rules and Regulations of the Philippine Accountancy Act of 2004 to assist the Board of Accountancy (BOA) in carrying out its power and function to promulgate accounting standards in the Philippines. The FRSC's main function is to establish generally accepted accounting principles in the Philippines through its review and adoption of the Standards issued by the IASB. The FRSC formed the PIC in August 2006 to assist the FRSC in establishing and improving financial reporting standards in the Philippines.

The role of the PIC is principally to issue implementation guidance on PFRSs which are then forwarded to the FRSC and BOA/PRC for approval before issuance to the public as final guidance.

The Securities and Exchange Commission (SEC) has the authority to prescribe the financial reporting framework to be used by corporations in the Philippines. These general financial reporting requirements are set out in Rule 68 of the Securities Regulation Code (SRC). The Bangko Sentral ng Pilipinas (BSP) and the Insurance Commission (IC) are the primary regulators of banking institutions and insurance companies, respectively, which issue rules and guidelines that include financial reporting matters.

The following new and amended IFRS Standards have been reviewed and/or adopted in the Philippines by the FRSC for the BOA/PRC.

Impact of the Initial Application of Interest Rate Benchmark Reform
These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the prior year, the Phase 1 amendments Interest Rate Benchmark Reform—Amendments to PFRS 9/PAS 39 and PFRS 7 were implemented. In the current year, the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16 were also implemented. By adopting these amendments an entity will be able to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Both the Phase 1 and Phase 2 amendments are not relevant to the Bank as it has no hedge instruments.

Impact of the Initial Application of COVID-19-Related Rent Concessions Beyond 30 June 2021 — Amendment to PFRS 16
In the prior year, the Bank adopted Covid-19-Related Rent Concessions (Amendment to PFRS 16) that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to PFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before June 30, 2021. In March 2021, the IASB issued Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before June 30, 2022. This Amendment was adopted by the FRSC for the (BOA/PRC) on April 14, 2021 and made effective beginning April 1, 2021.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022)
- There is no substantive change to other terms and conditions of the lease

The Bank has applied the amendment to PFRS 16 since 2019. The impact however on this Amendment was nil as the Bank is not a lessee hence it did not receive any rent concessions in 2021.

New and Revised IFRS Standards in Issue but not yet Effective

At the date of authorization of these financial statements, the Bank has not applied the following new and revised PFRS Standards that have been issued but are not yet effective [and in some cases] had not yet been adopted by the FRSC:

PFRS 17 (including the June 2020 Amendments)	Insurance Contracts
Amendments to PFRS 10 and PAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to PAS 1	Classification of Liabilities as Current or Non-current
Amendments to PFRS 3	Reference to the Conceptual Framework
Amendments to PAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to PAS 37	Onerous Contracts—Cost of Fulfilling a Contract
Annual Improvements to PFRS	Amendments to PFRS 1 First-time Adoption of International Standards 2018-2020 Cycle Financial Reporting Standards, PFRS 9 Financial Instruments, PFRS 16 Leases, and PAS 41 Agriculture
Amendments to PAS 1 and PFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to PAS 8	Definition of Accounting Estimates
Amendments to PAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Bank's Board of Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

PFRS 17 Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4 *Insurance Contracts.* PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB Board issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the Board issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

In the Philippines, the Insurance Commission (IC) approved to defer the implementation of IFRS 17 (it will become PFRS 17) to January 1, 2023, per IC Circular Letter No. 218-69, dated December 28, 2018. This Circular was further amended by Circular Letter No. 2020-62, dated May 18, 2020, further extending the implementation of IFRS 17 to January 1, 2025. The Bank anticipates no impact on PFRS 17 in its 2021 financial statements.

Amendments to PFRS 10 Consolidated Financial Statements and PAS 28 Investments in Associates and Joint Ventures—Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB Board; however, earlier application of the amendments is permitted. The Bank's Board of Directors anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to PAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Noncurrent
The amendments to PAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments were adopted by the FRSC on February 12, 2020 and August 19, 2020 and are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to PFRS 3 Business Combinations—Reference to the Conceptual Framework
The amendments update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS 37, an acquirer applies PAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments were adopted by the FRSC ON August 19, 2020 and are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to PAS 16 Property, Plant and Equipment—Proceeds before Intended Use
The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds

from selling items produced before that asset is available for use, i.e., proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments were adopted by the FRSC on August 19, 2020 and are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to PAS 37 Provisions, Contingent Liabilities and Contingent Assets—Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments were adopted by the FRSC on August 19, 2020 and are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to PFRS Standards 2018-2020

The Annual Improvements include amendments to four Standards, which were adopted by the FRSC on August 19, 2020 and are effective for annual periods beginning on or after 1 January 2022, with early application permitted. These are as follows:

PFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Standards if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

PFRS 9 Financial Instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

PFRS 16 Leases
The amendment removes the illustration of the reimbursement of leasehold improvements.
As the amendment to PFRS 16 only regards an illustrative example, no effective date is stated.

PAS 41 Agriculture
The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS 41 with the requirements of PFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e., for fair value measurements on or after the date an entity initially applies the amendment.

Amendments to PAS 1 Presentation of Financial Statements and
PFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies
The amendments change the requirements in PAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in PAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in PFRS Practice Statement 2.

The amendments to PAS 1 were adopted by the FRSC on April 14, 2021 and are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to PFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to PAS 8 Accounting Policies, Changes in
Accounting Estimates and Errors—Definition of Accounting Estimates
The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are 'monetary amounts in financial statements that are subject to measurement uncertainty'.

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.

- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The Board added two examples (Examples 4-5) to the Guidance on implementing PAS 8, which accompanies the Standard. The Board has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments were adopted by the FRSC on April 14, 2021 and are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to PAS 12 Income Taxes—Deferred Tax
related to Assets and Liabilities arising from a Single Transaction
The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease. Following the amendments to PAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The Board also adds an illustrative example to PAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

The amendments were adopted by the FRSC on June 9, 2021 and are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

Basis of Preparation
The financial statements have been prepared using the historical cost basis, except for financial instruments that are measured at fair values at the end of the year, as explained in the following accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for

leasing transactions that are within the scope of PFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS/IAS 2 or value in use in PAS/IAS 36.
The financial statements are presented in Philippine peso, which is the Bank's functional and presentation currency, and all values are recorded to the nearest peso except when otherwise indicated.

The preparation of the financial statements made use of estimates, assumptions and judgments by management based on management's best knowledge of current and historical facts as at reporting date. These estimates and judgments affect the reported amounts of assets and liabilities and contingent liabilities as at statement of financial position date, as well as affecting the reported income and expenses for the year. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Significant Accounting Policies
The principal accounting policies adopted are set out below.

Going Concern
The Board of Directors has, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Presentation of Financial Statements
The Bank's statements of financial position are presented broadly in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) are disclosed in Note 21. Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Business Combination
On December 1, 2020, the Bank acquired the identifiable net assets of Rural Bank of Ronda (A Rural Bank), Inc. after the approval from the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP) have been secured. The acquisition is accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred to the Bank, liabilities incurred by the Bank to the former owners of the acquiree and the equity interest issued by the Bank in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with PAS/IAS 12 and PAS/IAS 19 respectively;
- Liabilities or equity instruments related to share-based payment arrangements (if any) of the acquiree or share-based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with PFRS 2 at the acquisition date; and
- Assets that are classified as held for sale in accordance with PFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Bank in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.

When a business combination is achieved in stages, the Bank's previously held interests (including joint operations) in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Bank reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

As of November 30, 2020, the following entire assets and liabilities of Rural Bank of Ronda (A Rural Bank), Inc. have been transferred to the Bank:

November 30,	**2020**
Assets	
Cash and cash equivalents	**₱21,089,074**
Loans and discounts	**10,424,135**
Investment in debt securities – at amortized cost	**875,200**
Bank premises, furniture, fixtures and equipment	**247,021**
Investment properties	**4,511,634**
Other assets	**2,138,656**
Total Assets	**39,285,720**
Liabilities	
Deposit liabilities	**27,147,373**
Other liabilities	**981,686**
Total Liabilities	**28,129,059**
Net Assets Acquired	**₱11,156,661**

Goodwill
Goodwill is initially recognized and measured as set out above.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The acquisition resulted in provisional goodwill determined as follows:

November 30	**2020**
Consideration for the common shares	**₱14,105,700**
Net assets acquired	**11,156,661**
Goodwill	**₱2,949,039**

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments
Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities

are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial Assets
All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets
Debt instruments that meet the following conditions are measured subsequently at amortized cost: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI): (a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset: (a) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met [see (iii) below]; and (b) the Bank may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch [see (iv) below].

(i) Amortized Cost and Effective Interest Method
The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Bank recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

The Bank's cash, loans and other receivables, investments in debt securities and some items in other assets having the nature of receivables are financial assets at amortized cost.

- *Cash and Cash Equivalents*
  Cash and cash equivalents substantially consist of cash on hand and other cash items, amounts due from BSP and other banks that are known amounts of cash with maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. These are carried in the books at cost, which approximates market.

- *Loans and Other Receivables*
  Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise with the Bank provides money, goods and services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, sales contract receivables and all receivables from customers and other banks (due from other banks). They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

- *Investments in Debt Securities*
  The investments in debt securities are 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 on to maturity. The investments consist substantially of government debt securities.

(ii) *Debt Instruments Classified as at FVTOCI*
Debt instruments that are classified as at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of the debt instruments as a result of impairment gains or losses (see below), and interest income calculated using the effective interest method (see (i) above) are recognized in profit or loss.

The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortized cost. All other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Equity Instruments Designated as at FVTOCI

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

A financial asset is held for trading if: (1) it has been acquired principally for the purpose of selling it in the near term; or (2) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking; or (3) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

(iv) Financial Assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI [see (i) to (iii) above] are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Bank designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition [see (iii) above].

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria [see (i) and (ii) above] are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (the Bank has no hedge investments). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other services and other income' line item. Fair value is determined in the manner described the Bank's significant accounting policies.

Impairment of Financial Assets

The Bank recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVPL, loans and receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Bank always recognizes lifetime ECL (expected credit losses) for loans and receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Bank's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Bank recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Significant Increase in Credit Risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Bank's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Bank's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- Significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortized cost;
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- An actual or expected significant deterioration in the operating results of the debtor;
- Significant increases in credit risk on other financial instruments of the same debtor; and
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Bank has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if: (1) the financial instrument has a low risk of default; (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Bank considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of Default*

The Bank considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable: (1) when there is a breach of financial covenants by the debtor; or (2) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Bank, in full (without taking into account any collateral held by the Bank).

Irrespective of the above analysis, the Bank considers that default has occurred when a financial asset is more than 90 days past due unless the Bank has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events: (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event (see (ii) above); (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-Off Policy*

The Bank writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *Measurement and Recognition of Expected Credit Losses (ECL)*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guaranty contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Bank's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with PFRS 16.

For a financial guarantee contract, as the Bank is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI (if any), for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of Financial Assets
The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Bank has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Financial Liabilities and Equity

Classification as Debt or Equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial Liabilities
All financial liabilities are measured subsequently at amortized cost using the effective interest method or at

FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Bank, are measured in accordance with the specific accounting policies set out below.

Financial Liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) designated as at FVTPL.

A financial liability is classified as held for trading if: (a) it has been acquired principally for the purpose of repurchasing it in the near term; or (b) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or (c) it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if: (1) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or (2) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed, and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or (3) it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other services and other income' line item (Note 14) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guaranty contracts issued by the Bank that are designated by the Bank as at FVTPL are recognized in profit or loss.

Financial Liabilities Measured Subsequently at Amortized Cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Derecognition of Financial Liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss. When the Bank exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognized in profit or loss as the modification gain or loss within other gains and losses.

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation and any impairment losses. Such cost includes the cost of replacing part of such bank premises, furniture, fixtures and equipment when that cost is incurred, if the recognition criteria are met. Interests incurred on borrowed funds used to finance the construction of properties during the construction period are capitalized. Other borrowing costs are expensed.

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

(a) Buildings, 25 years;
(b) Furniture, fixtures and equipment, 5 to 10 years;
(c) Transportation equipment, 3 to 7 years; and
(d) Leasehold improvements, over the estimated useful lives of the improvements or the term of the lease, whichever is shorter.
(e) Land is not depreciated.

An item of bank premises, furniture, fixtures and equipment derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statement of profit or loss in the year the asset is derecognized.

The carrying values of bank premises, furniture, fixtures and equipment are reviewed for impairment when changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of bank premises, furniture, fixtures and equipment is the greater of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction.

Investment Properties
The Bank's investment properties pertain to real and other properties acquired (ROPA), which are real and other properties, other than those used for banking purposes or held for investment. These properties were acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

ROPAs are booked initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for credit losses computed based on PFRS 9 provisioning requirements, which take into account the fair value of the collateral) plus booked accrued interest less allowance for credit losses (computed based on PFRS 9 provisioning requirements) plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property). If the carrying amount of ROPA exceeds ₱5.0 million, the appraisal of the foreclosed/purchased asset should be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA are allocated to land, building, other non-financial assets and financial assets (e.g., receivables from third party or equity interest in an entity) based on their fair values, which allocated carrying amounts shall become their initial costs.

The non-financial assets portion of ROPA shall remain in ROPA and shall be accounted for as follows:

(1) Land and buildings are accounted for using the cost model under PAS/IAS 40 *Investment Property*;

(2) Other non-financial assets are accounted for using the cost model under PAS/IAS 16 *Property Plant and Equipment*;

(3) Buildings and other non-financial assets are depreciated over the remaining useful life of the assets, which shall not exceed ten (10) years and three (3) years from the date of acquisition, respectively; and

(4) Land, buildings and other non-financial assets are subject to the impairment provisions of PAS/IAS 36 *Impairment of Assets.*

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance, security maintenance and other holding costs are normally charged to income in the period in which the costs are incurred.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statement of profit or loss in the year of derecognition.

Other Assets
Other assets pertain to assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

Impairment of Non-Financial Assets
At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Shareholders' Equity
Share capital represents the nominal value of the ordinary and preference shares that have been issued. Surplus reserves comprise mainly of the appropriation from surplus and undivided profits (retained earnings) for the retirement of preference shares to provide for the reacquisition and cancellation of a Bank's preferred stock. Upon complete retirement of the preference shares, the account will cease to exist. Any excess of retirement premium not fully absorbed by the paid-in capital accounts will be charged surplus and undivided profits.

Surplus and undivided profits include all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revenue and Cost Recognition
The Bank's revenue is derived substantially from banking business and related activities and comprises net interest income and non-interest income. Income is recognized on an accrual basis in the period in which it accrues. Management has determined that the revenue from interest on loans are within the scope of PFRS 9 while the income from non-interest related activities are within the scope of PFRS 15.

The following specific criteria are the bases used in recognizing revenue:

Under PFRS 9

(a) Interest income and interest expense are recognized in profit or loss for all financial assets or liabilities using the effective interest method on the basis of the cost of the individual financial instrument. The effective interest method is a method of calculating the amortized costs of a financial asset or a financial liability 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.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums or discounts. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Interest expense on deposit liabilities are recognized based on the accrual method of accounting, using the effective interest method which is the rate that exactly discounts estimated future cash flows through the expected life of the interest-bearing financial instruments to the net carrying amount of the financial liability.

(c) Income from investments in debt securities held to collect contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes) are recognized at amortized cost, with interest income recognized at the effective interest rate.

Under PFRS 15
The Bank recognizes revenue from contracts with customers at an amount that reflects the consideration to which the Bank is expected to be entitled in exchange for transferring goods or services to a customer.

For each contract with a customer, the Bank:

(1) Identifies the contract with a customer;
(2) Identifies the performance obligations in the contract;
(3) Determines the transaction price which takes into account estimates of variable consideration and the time value of money;
(4) Allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
(5) Recognizes revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method.

The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognized as deferred revenue in the form of a separate refund liability.

The Bank recognizes income from other sources as follows:

(a) Application fees and commissions are generally recognized when earned over the term of the credit lines granted to each borrower. Other non-finance charges on loans and penalties on delinquent accounts are recognized as the related services are performed.

(b) Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Application Fees and Other Income.

Cost and Expenses
Costs and expenses are recognized in the statement of profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen which can be measured reliably.

Costs and expenses are recognized in the statement of profit or loss: i) on the basis of a direct association between the cost incurred and the earnings of specific items of income; ii) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or iii) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

Operating expense include administrative and other operating expenses representing the costs directly associated with the generation of revenue and cost of administering the business, and these are expensed as incurred.

Compensation and Benefits Expense
Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees or for the termination of their employments in the Bank. The Bank recognizes: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the Bank consumes the economic benefit arising from the service provided by an employee in exchange for employee benefits.

The following represent the accounting followed by the Bank for all types of employee benefits, except share-based payment, to which there is none.

- *Short-Term Employee Benefits*
  Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits include wages, salaries, profit-sharing and bonuses (if there are any) and non-monetary benefits paid to current employees. These are recognized when the employee has rendered the service and are measured at the undiscounted amount of benefits expected to be paid in exchange for that service.

The benefits also include compensated absences which are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts the Bank expects to pay as a result of unused entitlements at the end of the period. The amounts recognized are included in Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

- *Profit-Sharing and Bonus Payments (If Any)*
  The Bank recognizes the expected cost of profit-sharing and bonus payments when, and only when, it has a legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the expected obligation can be made. Profit-sharing agreements are normally covered during the hiring of services of selected officers and are based on certain conditions and parameters that are measurable. Such agreements are normally approved and authorized by the Board of Directors. On the other hand, declarations of bonuses to officers and employees are the sole responsibility of the Board of Directors. As a matter of policy, the Bank does not declare and accrue bonuses unless approved and authorized for release by the Board of Directors.

- *Post-Employment Benefit Plans*
  Post-employment benefit plans that are provided to employees only cover their retirement benefits, which are paid in lump sum payments at the time of their retirements. The retirement benefits are provided to employees through a defined benefit plan. A defined benefit plan is a retirement plan that defines an amount of retirement benefit 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 the benefits of the retirement 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 defined benefit retirement plan covers all regular full-time employees.

- *Termination Benefits*
  Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to present value.

Retirement Benefits
The Bank operates a defined benefit retirement plan which requires contribution to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. The defined benefit costs comprise the following: (a) service cost; (b) net interest on the net defined benefit liability or asset, and (c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by the Consulting Actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a trustee bank intended for retirement. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases
The Bank has applied PFRS 16 beginning January 1, 2019. PFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

Applying PFRS 16, for all leases, the Bank: (a) recognizes right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments; (b) recognizes depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows. Lease incentives (e.g., rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under PAS/IAS 17 they resulted in the recognition of a lease incentive, amortized as a reduction of rental expenses generally on a straight-line basis.

Leases – The Bank as Lessee
The Bank's leases substantially involve the use of office spaces that are used for its branch offices. The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these low value leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. For purposes of discounting, the Bank is using the average borrowing rate of its bills payable and time deposits.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the period presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS/IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies PAS/IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Bank Premises, Furniture, Fixtures and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'Rent' in the statement of profit or loss.

As a practical expedient, PFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Leases – The Bank as Lessor

Leases, for which the Bank is a lessor, are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. The Bank is not a lessor of properties.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases. When a contract includes both lease and non-lease components, the Bank applies PFRS 15 to allocate the consideration under the contract to each component.

Income Taxation

The income tax expense represents the sum of the tax currently payable and deferred.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain, but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of the Chief Accounting Officer of the Bank supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except: (a) where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from excess minimum corporate income tax (MCIT) and unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused NOLCO can be utilized except: (a) where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss.

Earnings per Share

Basic earnings per share (EPS) is computed by dividing the profit for the year attributable to common shareholders (net income for the period less dividends on convertible redeemable preferred shares) by the weighted average number of common shares issued and outstanding during the year and adjusted to give retroactive effect to any stock dividends declared during the period.

Diluted EPS is computed by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible redeemable preferred shares. Diluted EPS assumes the conversion of the outstanding preferred shares. When the effect of the conversion of such preferred shares is anti-dilutive, no diluted EPS is presented.

Contingencies
A contingency arises when there is a situation for which the outcome is uncertain, and which should be resolved in the future, possibly creating a loss. The accounting for a contingency is essentially to recognize only those losses that are probable and for which a loss amount can be reasonably estimated. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized either, but these are generally disclosed unless the possibility of an outflow of resources is remote.

Provisions and Contingent Liabilities
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material). When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Events After Reporting Date
Post year-end events that provide additional information about the Bank's position at statement of financial position date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

Note 3
Significant Accounting Judgment and Estimates

In applying the Bank's accounting policies, which are described in Note 2, *Summary of Significant Accounting Policies*, the management of the Bank are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgements in Applying the Bank's Accounting Policies
The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the management of the Bank have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Business Model Assessment
Classification and measurement of financial assets depends on the results of the Solely Payments of Principal and Interest (SPPI) and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment

of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant Increase in Credit Risk
Expected credit losses (ECL) are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key Sources of Estimation Uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair Value Measurements
Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible; but this is not always available. In that case, management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment
The Bank reviews annually the estimated useful lives of its bank premises, furniture, fixtures and equipment based on expected asset utilization. It is possible that future results of operations could be materially affected by changes in these estimates. A reduction in the estimated useful lives of these properties would increase recorded depreciation and amortization expense and decrease the related asset accounts.

Impairment of Non-Financial Assets
The Bank assesses the impairment of its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific asset, the recoverable amount represents the net selling price. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Bank is required to make estimates and assumptions that can materially affect the Bank's financial statements.

Retirement Benefits
The determination of the Bank's obligation and cost for pension and other employees' benefits is dependent on the selection of certain assumptions used by management in calculating such amounts. While the Bank believes that the assumptions used are reasonable and appropriate, significant differences in the actual experience or significant changes in assumptions may materially affect employee benefit obligations.

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 longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Provisions and Contingencies
Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.

Note 4
Cash and Cash Equivalents

This account consists of the following:

December 31	**2021**	2020
Due from Bangko Sentral ng Pilipinas	**₱346,310,236**	₱218,904,200
Due from other banks	**185,744,760**	124,545,543
Cash and other cash items	**50,004,581**	76,941,943
	₱582,059,577	₱420,391,686

Due from other banks earn annual interest ranging from 0.125% to 0.75% in 2021 and 2020. Short-term deposits are made for varying periods up to three months depending on the immediate cash requirements of the Bank and earn interest ranging from 0.50% to 0.430% in 2021 and 2020, respectively.

Interest income from bank deposits amounted to ₱1,589,787 and ₱3,969,454 in 2021 and 2020, respectively.

Due from other banks also includes restricted time deposits used to secure the Bank's bills payable with the following banks:

December 31,	**2021**	2020
Land Bank of the Philippines (LBP)	**₱5,357,328**	₱5,333,716
Philippine National Bank (PNB)	**165,484**	164,827
	₱5,522,812	₱5,498,543

Note 5
Loans and Other Receivables

The loans and other receivables consist of the following:

December 31,	**2021**	2020
Loans receivable	**₱1,903,059,251**	₱1,610,374,152
Other receivables	**49,027,470**	85,597,373
Total	**1,952,086,721**	1,695,971,525
Allowance for expected credit losses	**(280,251,855)**	(271,991,855)
Unearned interest and discounts	**(17,076,954)**	(10,431,035)
Net	**₱1,654,757,912**	₱1,413,548,635

Breakdown of Loans Receivable

December 31,	**2021**	%	2020	%
Agricultural	**₱283,920,041**	**15**	₱207,062,327	13
Commercial	**1,583,263,463**	**83**	1,367,421,954	85
Others	**35,875,747**	**2**	35,889,871	2
Total	**1,903,059,251**	**100**	1,610,374,152	100
Allowance for expected credit losses	**(261,487,173)**	**(16)**	(253,227,173)	(19)
Unearned interest and discounts	**(17,076,954)**	**(1)**	(10,431,035)	(1)
Net	**₱1,624,495,124**	**83**	1,346,715,944	80

These loans bear annual interest rates ranging from 8% to 30% per annum collectible over a period of 6 months to 5 years.

Interest on loans recognized in the statement of profit or loss amounted ₱242,125,000 in 2021 and ₱198,387,218 in 2020.

Maturity Profile of Loans Receivable

December 31,	**2021**	**%**	2020	%
Due more than 12 months	**₱1,288,158,453**	**68**	₱1,067,108,147	66
Due within 12 months	**614,900,798**	**32**	543,266,005	34
	₱1,903,059,251	**100**	₱1,610,374,152	100

Breakdown by Type of Security

December 31,	**2021**	**%**	2020	%
Unsecured	**₱1,578,186,534**	**83**	₱1,288,222,573	80
Secured	**324,872,717**	**17**	322,151,579	20
	₱1,903,059,251	**100**	₱1,610,374,152	100

About ₱1.1 million and ₱53.8 million as of December 31, 2021 and 2020, respectively, have been pledged as security to the bills payable of the Bank. (See Note 11.)

Breakdown by Concentration of Credit

December 31,	**2021**	%	2020	%
Agricultural	**₱283,920,041**	15	₱99,225,877	7
Wholesale and retail trade	**239,595,562**	13	277,523,520	19
Others	**1,379,543,648**	72	1,233,624,755	74
	₱1,903,059,251	100	₱1,610,374,152	100

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio.

Breakdown by Age of Accounts

December 31, 2021	***Current***	***Past Due***	***Total***
Agricultural	**₱177,259,799**	**₱106,660,242**	**₱283,920,041**
Commercial	**1,277,613,676**	**305,649,787**	**1,583,263,463**
Others	**–**	**35,875,747**	**35,875,747**
	₱1,454,873,475	**₱448,185,776**	**₱1,903,059,251**
	76%	**24%**	**100%**
December 31, 2020			
Agricultural	₱101,866,405	₱105,195,922	₱207,062,327
Commercial	1,073,438,790	293,983,164	1,367,421,954
Others	–	35,889,871	35,889,871
	₱1,175,305,195	₱435,068,957	₱1,610,374,152
	73%	27%	100%

Portion of the past due accounts are covered with real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

Non-Performing Loans

The non-performing loans as defined under Section 304 of the MORB amounted ₱429,042,089 in 2021 and ₱427,209,166 in 2020. Under Section 304 of the MORB, loans are considered nonperforming, *'even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered nonperforming if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.'*

Breakdown as to Status of Loans (Past Due Performing and Past Due Non-Performing)

December 31, 2021	*Performing*	%	*Non-Performing*	%	*Total*	%
Agricultural	**₱177,841,946**	**12%**	**₱106,078,095**	**25%**	**₱283,920,041**	**15%**
Commercial (SME)	**263,094,099**	**18%**	**25,736,192**	**10%**	**113,617,102**	**15%**
Others–personal consumption	**1,033,081,117**	**70%**	**297,227,801**	**65%**	**1,505,522,108**	**70%**
	₱1,474,017,162	**100%**	**₱429,042,089**	**100%**	**₱1,903,059,251**	**100%**
December 31, 2020						
Agricultural	₱102,052,878	9	₱105,009,449	24	₱207,062,327	13
Commercial (SME)	296,865,378	25	29,199,219	6	325,064,597	20
Others–personal consumption	784,246,730	66	294,000,499	70	1,078,247,228	67
	₱1,183,164,986	100	₱427,209,166	100	₱1,610,374,152	100.00

Past Due Ratio on Total Loans is 23% in 2021 and 27% in 2020.

Allowance for Expected Credit Losses (ECL)

The accounts were subjected to impairment testing using the expected credit loss model by considering possible defaults for the next 12 months (12-month ECL) and expected credit losses for the entire remaining life of the receivables (lifetime ECL).

The recorded ECL for Individually Assessed Loans and Other Credit Accommodations have been determined from the gap analysis performed by the Bank on its accounts which are in accordance with the MORB. While the recorded ECL for Collectively Assessed Loans and Other Credit Accommodations have been determined from the gap analysis performed by the Bank on its accounts which are in accordance with their Loan Loss Methodology (LLM) and Loan Loss Provisioning (LLP) policy manual for consumer loan (CL) as per approved Board Resolution No. 20190717-008.

A 12-month ECL was provided at 1% of on all current accounts (general loan-loss provisions) and ECL at graduated rates for accounts classified as past due as follows:

I. Individually Assessed Loans and Other Credit Accommodations

A. For Unsecured Loans and Other Credit Accommodations

No. of Days Unpaid/with Missed Payments	*Classification*	*ECL Rate*
31-90 days	Substandard	10%
91-120 days	Substandard	25%
121-180 days	Doubtful	50%
181 days and over	Loss	100%

B. For Secured Loans and Other Credit Accommodations

31-180 days	Substandard	10%
181-365 days	Substandard	25%
Over 1 year to 5 years	Doubtful	50%
Over 5 years	Loss	100%

C. For Loans and Other Credit Exposures (Classified Accounts)

Especially Mentioned	5%
Substandard – Secured	10%
Substandard – Unsecured	25%
Doubtful	50%
Loss	100%

II. Collectively Assessed Loans and Other Credit Exposures

D. For Non-Matured Loans According to Loan Type

No. of Days Unpaid/with Missed Payments	*Classification*	*Amortized*	
		APDS	*Non-APDS*
0-30 days	Especially Mentioned	0%	1%
31-60 days	Especially Mentioned	1%	3%
61-90 days	Substandard	2%	6%
91-180 days	Substandard	4%	9%
181-360 days	Substandard	9%	21%
361-720 days	Doubtful	26%	47%
Over 720 days	Doubtful	65%	70%

E. For Matured Loans per Days Past Maturity Group and Loan Type

No. of Days Since Maturity	*Classification*	*Amortized*	*Lumpsum*	
			Bonus	*Non-Bonus*
0-30 days	Doubtful	74%	14%	23%
31-60 days	Doubtful	80%	25%	31%
61-90 days	Doubtful	83%	36%	38%
91-180 days	Doubtful	88%	51%	49%
181-360 days	Doubtful	94%	77%	68%
Over 360 days	Loss	100%	100%	100%

Roll-Forward Analyses of the Allowance for ECL

The movements of the allowance for expected credit losses are as follows:

December 31	**2021**	2020
Opening balances, as originally stated	**₱147,388,773**	₱177,862,410
Add additional allowance (see below)	**105,838,400**	105,838,400
Opening balances, as restated	**253,227,173**	283,700,810
Additional provisions for the year	**8,260,000**	2,620,109
Write-off of loans	**–**	(33,093,746)
Closing balances as restated	**₱261,487,173**	₱253,227,173

In accordance with the Bank's Loan Loss Estimation Methodology developed in accordance with MORB, the Bank determined that the required additional allowance for expected credit losses (ECL) as of December 31, 2021 should be ₱98,366,498. The Bank was not able to book the remaining required ECL as of December 31, 2021.

Restatement of 2020 and Prior Years' Allowance for Impairment Losses

During the year, the Bank restated the 2020 and prior years' allowance for expected credit losses to record provision for loan losses amounting ₱105,838,400, representing the following: (a) the yearly installments amounting to ₱31.6 million of the BSP-approved staggered booking of incentives which the bank is allowed to book on a staggered basis until 2021, and (b) portion of the deficits of ECL in prior years. As a result of the restatement, the beginning balances of surplus and undivided profits for the year 2020 and the deferred tax assets were adjusted by ₱79,378,800 and ₱26,459,600 (₱105,838,400 x 25%), respectively.

The provision for expected credit losses of ₱105,838,400 was recorded against surplus since said provisions were determined and represented expected credit losses of prior years.

Details of Other Receivables

December 31,	**2021**	2020
Accrued interest income on loans receivable	**₱20,918,391**	₱26,027,514
Accounts receivable *(See details in a table below.)*	**19,827,436**	25,464,859
Sales contract receivable	**8,281,643**	34,105,000
Total	**49,027,470**	85,597,373
Allowance for expected credit losses *(See table below.)*	**(18,764,682)**	(18,764,682)
Net	**₱30,262,788**	₱66,832,691

Allowance for Expected Credit Losses

The accounts were subjected to impairment testing using the expected credit loss model by considering possible defaults for the next 12 months (12-month ECL) and expected credit losses for the entire remaining life of the receivables (lifetime ECL). The movements of the allowance for expected credit losses are as follows:

December 31	**2021**	2020
Opening balances, as originally stated	**₱8,658,560**	₱4,921,013
Add additional allowance *(See paragraph below.)*	**10,106,122**	10,106,122
Opening balances, as restated	**18,764,682**	15,027,135
Additional provisions for the year	**–**	3,737,547
Closing balances as restated	**₱18,764,682**	₱18,764,682

Restatement of 2020 and Prior Years' Allowance for Impairment Losses

During the year, the Bank restated the 2020 and prior years' allowance for expected credit losses to record additional provision for other receivables losses amounting ₱10,106,122. The Bank recorded the adjustment to the beginning deficit in 2020.

Composition of Accounts Receivable

December 31,	**2021**	2020
Receivable from resigned employees	**₱10,444,512**	₱4,897,658,
Borrowers under litigation	**6,800,939**	6,805,116
Advances to contractors	**1,707,099**	1,854,486
Advances to SSS maternity/sickness	**315,250**	264,425
Advances to officers and employees	**275,097**	547,626,
Receivable from client	**202,643**	–
Uncleared PDC for loan collection	**–**	10,486,078
Receivable from Bancnet	**–**	89,570
Other receivables	**81,896**	519,900
	₱19,827,436	₱25,464,859

Note 6

Details of Investments in Debt Securities – At Amortized Cost

December 31,	**2021**	2020
Retail treasury bonds, at face value	**₱14,875,200**	₱14,875,200
Retail treasury bonds, at discounts on its face value	**31,639,888**	24,673,228
	₱46,515,088	₱39,548,428

Investment income earned amounted to ₱1,573,051 in 2021 and ₱1,626,654 in 2020. Management has determined that these investments have not been impaired during the year.

Retail Treasury Bonds, at Face Value
The retail treasury bonds purchased through Land Bank of the Philippines (LBP), totaling ₱14,875,200, have coupon rates ranging from 3.25% to 4.63% and will mature on the following dates: September 14, 2026, February 10, 2023, December 3, 2022, and June 27, 2022.

Retail Treasury Bonds, at Discounts on its Face Value
The treasury bonds represent 4 to 6-year retail treasury bonds which are issued at discount on its face value with interest rate at 3.25% per annum payable quarterly. The bond will mature on the following dates: August 15, 2023, June 27, 2022, and May 16, 2022.

Analysis of the Retail Treasury Bonds

December 31,	**2021**	2020
Face value	**₱32,241,000**	₱25,241,000
Net discount	**(601,112)**	(567,772)
Carrying Amount	**₱31,639,888**	₱25,673,228

Note 7
Bank Premises, Furniture, Fixtures and Equipment and Right-of-Use Asset

Bank Premises, Furniture, Fixtures and Equipment – At Cost
This account consists of the following:

December 31,	**2021**	2020
Land	**₱13,818,890**	₱13,818,890
Building	**43,261,286**	42,666,008
Furniture, fixtures and equipment	**92,139,561**	88,742,072
Transportation equipment	**20,390,025**	21,597,861
Leasehold improvements	**29,229,710**	22,340,893
Total	**198,839,472**	189,165,724
Accumulated depreciation	**(124,771,392)**	(125,990,744)
Net Book Value	**₱74,068,080**	₱63,174,980

Reconciliation of Carrying Amounts

December 31, 2021	*Opening Balance*	*Additions*	*Disposal/Adjustment*	***Closing Balance***
Cost				
Land	₱13,818,890	₱–	₱–	**₱13,818,890**
Building	42,666,008	595,278		**43,261,286**
Furniture, fixtures and equipment	88,742,072	8,228,101	(4,830,612)	**92,139,561**
Transportation equipment	21,597,861	3,741,750	(4,949,586)	**20,390,025**
Leasehold improvements	22,340,893	6,888,817		**29,229,710**
Total	189,165,724	19,453,946	(9,780,198)	**198,839,472**
Accumulated Depreciation				
Building	(18,782,145)	(1,693,948)	–	**(20,476,093)**
Furniture, fixtures and equipment	(70,509,063)	(7,194,127)	8,225,252	**(69,477,938)**
Transportation equipment	(15,495,470)	(1,724,533)	4,135,635	**(13,084,368)**
Leasehold improvements	(21,204,066)	(528,927)	–	**(21,732,993)**
Total	(125,990,744)	(11,141,535)	12,360,887	**(124,771,392)**
Net Book Value	₱63,174,980	₱8,312,411	₱2,580,689	**₱74,068,080**

December 31, 2020	*Opening Balance*	*Additions*	*Disposal/Adjustment*	*Closing Balance*
Cost				
Land	₱17,348,890	₱–	(₱3,530,000)	₱13,818,890
Building	45,626,065	–	–	42,666,008
Furniture, fixtures and equipment	85,491,175	₱3,250,897	–	88,742,072
Transportation equipment	22,370,958	–	(773,097)	21,597,861
Leasehold improvements	21,309,496	1,136,827	(105,430)	22,340,893
Total	192,146,584	4,387,724	(7,368,584)	189,165,724
Accumulated Depreciation				
Building	(18,497,156)	(1,618,692)	1,333,703	(18,782,145)
Furniture, fixtures and equipment	(63,917,386)	(6,259,130)	(332,547)	(70,509,063)
Transportation equipment	(14,804,050)	(1,682,725)	991,305	(15,495,470)
Leasehold improvements	(20,551,104)	(652,962)	–	(21,204,066)
Total	(117,769,696)	(10,213,509)	1,992,461	(125,990,744)
Net Book Value	₱74,376,888	(₱5,825,785)	(₱5,376,123)	₱63,174,980

As of December 31, 2021 and 2020, the land and building have estimated market values of ₱74.6 million.

Right-of-Use Asset
This account consists of the following:

December 31,	**2021**	2020
Right-of-use assets	**₱31,585,189**	₱20,979,286
Accumulated depreciation	**(14,956,401)**	(8,308,347)
Net Book Value	**₱16,628,788**	₱12,670,939

The Bank has leases for buildings and spaces occupied by its branches dispersed in strategic locations within Mindanao and Visayas. With the exception of short-term leases and leases of low value assets, the leases are reflected on the statement of financial position collectively as right-of-use assets and lease liabilities. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liabilities and assets.

The Bank discounted the future lease payments at 4.25% per annum, the incremental borrowing rate (IBR) based on the average borrowing rate of the Bank's existing loans payable to a Private creditor bank. (See Note 11.). The observable rate was no longer adjusted for credit risk and other factors as management determined that any adjustments are immaterial. The Bank applied a single discount rate to the portfolio of leases as it considers the leases similar in class of underlying assets in a similar economic environment.

During 2020, the Bank recognized its right-of-use assets at ₱20,979,286, and recognized lease liability of ₱13,654,396, interest expense of ₱1,074,438 and depreciation expense of ₱5,396,025. Total lease payments (including interest) amounted ₱5,813,259 in 2020, the second year of adoption of PFRS 16. During 2021, the Bank remeasured its right-of-use assets at ₱31,585,189 and its lease liabilities at ₱18,422,293.

Lease Liabilities
Lease liabilities are presented in the statement of financial position as follows:

December 31,	**2021**	2020
Current	**₱4,860,462**	₱4,363,115
Non-current	**13,561,831**	9,291,281
	₱18,422,293	₱13,654,396

Interest incurred on lease liabilities amounted ₱1,324,952 in 2021 and ₱1,074,438 in 2020.

Each lease imposes a restriction that, unless there is a written approval of the lessor to sublet the asset to another party, the right-of-use asset can only be used by the Bank. The lease contains an option to extend the lease for a further term under such terms and conditions as may be mutually agreed upon by the parties. The Bank is prohibited from selling or pledging the underlying leased assets as security.

For leases over office spaces premises, the Bank must keep the properties in good states of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Reconciliation of Carrying Amounts

December 31, 2021	*Opening Balance*	*Additions*	*Disposal/Adjustment*	***Closing Balance***
Right-of-use asset	₱20,979,286	₱10,605,903	₱–	**₱31,585,189**
Less accumulated depreciation	(8,308,347)	(6,648,054)	–	**(14,956,401)**
Net Book Value	₱12,670,939	₱3,957,849	₱–	**₱16,628,788**
December 31, 2020				
Right-of-use assets	₱13,840,401	₱7,270,454	₱–	₱20,979,286
Less accumulated depreciation	2,912,322	5,396,025	–	(8,308,347)
Net Book Value	₱10,928,079	₱1,742,860	₱–	₱12,670,939

Note 8
Investment Properties

This account represents land and buildings which were acquired in settlement of loans and are held for capital appreciation. The land consists of several pieces of lots located within Mindanao and in Visayas recorded in the books at the total loan outstanding at the time of acquisition. These properties have estimated market values of ₱242.7 million at the end of 2021 and ₱276 million at the end of 2020.

Income from assets acquired recognized in the statements of profits or loss amounted to ₱5,644,136 in 2021 and ₱17,620,983 in 2020. Total depreciation charged to operations amounted to ₱4,181,769 and ₱568,940 for the years ended December 31, 2021 and December 31, 2020, respectively. The Bank management believes the investment properties were not further impaired as of December 31, 2021.

Details of Investment Properties

December 31,	**2021**	2020
Cost		
Opening balances	**₱131,653,129**	₱129,679,107
Additions	**4,780,148**	12,045,883
Adjustment due to merger *(Note 2)*		4,633,714
Disposals/reclassification	**(9,372,421)**	(14,705,575)
Closing balances	**127,060,856**	131,653,129
Accumulated Depreciation		
Opening balances	**(6,176,351)**	(5,485,331)
Additions	**(4,181,769)**	(568,940)
Adjustment due to merger *(Note 2)*	**–**	(122,080)
Disposals/adjustments	**347,007**	–
Closing balances	**(10,011,113)**	(6,176,351)

(Carried Forward.)

(Brought Forward.)

December 31,	**2021**	2020
Allowance for Impairment Losses		
Opening balances, as originally stated	**(1,496,677)**	(1,496,677)
Add additional allowance (see below)	**(485,000)**	(485,000)
Opening balances, as restated	**(1,981,677)**	(1,981,677)
Provision for impairment losses	**–**	–
Closing balances	**(1,981,677)**	(1,981,677)
Net Book Value	**₱115,068,066**	₱123,980,101

Restatement of 2020 and Prior Years' Allowance for Impairment Losses
During the year, the Bank restated the 2020 and prior years' allowance for expected losses to record additional provision for impairment losses on investment properties amounting ₱485,000. The Bank recorded the adjustment to the beginning deficit in 2020.

Note 9
Other Assets

The composition of this account is shown below:

December 31,	**2021**	2020
Deferred tax assets *(Note 17)*	**₱86,476,354**	₱82,698,885
Prepaid expenses	**5,938,844**	5,973,871
Stationery and office supplies	**3,145,866**	2,020,096
Goodwill *(Notes 1 and 2)*	**2,949,039**	2,949,039
Computerized program and product development costs	**751,987**	18,358,224
Miscellaneous assets	**6,950,797**	9,168,377
	₱106,212,887	₱121,168,492

Prepaid expenses represent expenses such as: PDIC insurance, prepaid rentals, employees' uniforms, and other expenses paid in advance but are to be consumed within one year. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

The computerized program and product development costs represent the cumulative costs of developing the banking software that is used in operations and are amortized over ten (10) years. The amortization incurred amounted ₱1,291,084 in 2021 and ₱1,993,942 in 2020 lodged under 'Information and Technology Expenses'.

Note 10
Deposit Liabilities

This account is composed of the following:

December 31,	**2021**	2020
Savings and demand deposits	**₱1,013,656,665**	₱1,047,301,561
Time deposits	**1,179,778,289**	821,604,469
	₱2,193,434,954	₱1,868,906,030

The deposit liabilities earn annual fixed interest of 0.50% for savings accounts, and from 1.24% to 2.96% for time deposits. Total interest incurred amounted ₱59,985,974 in 2021 and ₱51,405,147 in 2020.

Maturity Profile of Time Deposits

December 31,	**2021**	2020
Six months to one year	**₱794,127,881**	₱476,437,479
More than one year	**385,650,408**	345,166,990
	₱1,179,778,289	₱821,604,469

Note 11
Bills Payable

This consists of the following bills payable to:

December 31,	**2021**	2020
Small Business Corporation (SBC)	**₱1,083,545**	₱3,373,614
Land Bank of the Philippines (LBP)	**–**	43,548,444
Total	**1,083,545**	46,922,058
Due in more than one year	**400,016**	12,175,358
Due within one year and below	**₱683,529**	₱34,746,700

Details of Bills Payable
The loan with Land Bank of the Philippines carries interest from 5.25% to 9.25% (subject to quarterly repricing) payable annually within one year to five years. The accounts with SBC represent the balance of bills payable arising from rediscounting of loans with interest rates ranging from 4.0% to 4.5% annually and is payable from one to five years. Total interest incurred on bills payable amounted ₱1,241,528 in 2021 and ₱6,774,377 in 2020.

The bills payable were secured by loans receivable amounting to ₱1.1 million and ₱53.8 million as of December 31, 2020. (See Note 5.)

Movements of the Accounts

December 31,	**2021**	2020
Opening balances	**₱46,922,058**	₱200,153,168
Payments	**(45,838,513)**	(153,231,110)
Additions	**–**	–
Closing balances	**₱1,083,545**	₱46,922,058

Note 12
Other Liabilities

These liabilities consist of the following:

December 31	**2021**	2020
Redeemable preference shares *(Note 13)*	**₱51,799,100**	₱51,566,900
Accrued interest payable *(Note 11)*	**23,319,439**	22,719,564
Accounts payable *(See breakdown in table next page.)*	**19,009,296**	21,881,064
Retirement benefit obligation *(Note 15)*	**15,676,978**	14,065,435
Accrued expenses	**13,003,251**	11,791,151
Income tax payable *(Note 17)*	**622,582**	–
Other payables	**3,650,679**	2,513,292
	₱127,081,325	₱124,537,406

Breakdown of Accounts Payable

December 31	**2021**	2020
Payable to Bancnet	**₱8,548,733**	₱14,050,618
Payable to clients	**6,009,837**	2,775,945
Documentary stamps	**1,075,877**	935,679
Payable to insurance	**748,458**	1,014,130
Payable to Merchant Partners	**411,400**	444,382
Accounts payable – suppliers	**320,075**	223,283
Deposits from borrowers for payment for mortgages	**308,912**	659,086
Payable to separated employees	**237,382**	166,881
SSS pension and remittances	**206,609**	206,610
Payable to ROPA account	**110,000**	112,000
Items in litigation	**43,900**	43,135
Payable to collecting agency	**29,800**	173,933
Payable to appraisers	**16,000**	9,000
Payable to employees	**15,524**	270,173
Others	**926,789**	796,209
	₱19,009,296	₱21,881,064

Accounts and other payables are non-interest bearing are generally on a 30 to 60-day term.

Note 13
Share Capital

Details of Share Capital

December 31,	**2021**	2020
Preference Shares A – ₱100 par value Government – non-voting and convertible, cumulative Authorized – 251,353 shares Issued and outstanding – 0 shares	**₱–**	₱–
Preference Shares B – ₱100 par value *(Note 12)* Private – redeemable non-voting and convertible Authorized – 1,150,000 shares Issued and outstanding – 517,991 in 2021 and 515,669 in 2020	**–**	–
Ordinary (Common) Shares – ₱100 par value Authorized – 4,000,000 shares Issued and outstanding – 3,589,254 in 2021 and 2,897,753 in 2020	**358,925,400**	289,775,300
	₱358,925,400	₱289,775,300

Nature of the Shares
The preference shares have the following rights, preferences, conditions and limitations:

(a) Preference Shares "A" are issued only against 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) Preference 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 liquidation 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.

Presentation of Redeemable Preference Shares as Financial Liabilities
The Bank's preference shares are presently held by the Government and private shareholders, amounting ₱100,000 and ₱51,699,100, respectively, and are presented as part of 'Other Liabilities'. (See Note 12.)

The preference shares generally have the following features: (1) the holders of preferred shares have no voting rights but are granted preferred claim status after creditors' claims and other statutory preference claims on the liquidating assets of the Bank over the common shareholders, and (2) the holders of preferred shares are granted preferred dividend rights over common shareholders with a fixed dividend rate of nine percent (9%) net of tax payable yearly on a monthly basis, cumulative.

Because the shares are redeemable at the option of the holder and the Bank is obliged to pay fixed dividends monthly, the Bank treated the preference shares as a financial liability, in accordance with the advice of BSP.

Compliance with Minimum Capital Required
In accordance with Section 121 *Minimum Required Capital* of the MORB, the Bank's minimum capital is pegged at ₱40 million, being located in 1st class city and having twenty-eight (28) branches and two (2) branch lite unit. As of 2021, the Bank has complied with this capitalization requirement.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRSs in some aspect.

The Bank's unimpaired capital includes its (i) paid-up ordinary (common shares), (ii) surplus and undivided profits, minus any (iii) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (iv) total outstanding unsecured credit accommodations to directors, officers, shareholders and related interests (DOSRI); (v) deferred tax asset or liability; and (vi) other regulatory deductions.

The BSP determines the minimum level of capital to be held by the Bank against its market risks, in addition to its credit risk. Section 127 of the MORB defines risk-based capital adequacy ratio as a percentage of qualifying capital to risk-weighted assets which shall not be less ten percent (10.00%) for solo basis banks (head office and branches). Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptance under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board.

Capital Management Objectives, Policies and Procedures
BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. The Bank's policy is to maintain a strong capital base as to maintain stockholders, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP. The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding: (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations to DOSRI; (c) deferred tax asset or liability; (d) sinking fund for redemption of redeemable preferred shares; and (e) other regulatory deductions.

Significant Financial Ratios
In compliance with requirements of Section 174 of the MORB, the financial ratios of the Bank for the years 2021 and 2020 have been computed as additional disclosure requirements in the notes to the audited financial statements, as follows:

December 31	**2021**	2020
Return on Average Equity	**23.36%**	20.93%
Return on Average Assets	**1.93%**	1.53%
Net Interest Margin	**9.13%**	8.01%
Capital-to-Risk Assets Ratio	**14.87%**	9.51%
Risk-Based Capital Adequacy	**10.01%**	5.51%
Tier 1 Capital	**₱167,104,828**	₱55,425,000
Tier 2 Capital	**₱66,347,835**	₱63,319,952
Total Qualifying Capital	**₱233,452,663**	₱118,744,952
Total Risk-Weighted Assets	**₱2,331,536,003**	₱2,156,097,338
Tier 1 Ratio	**7.17%**	2.57%
Minimum Liquidity Ratio	**24.87%**	20.47%

Restatement of 2020 Ratios
The 2020 ratios presented were restated from ratios originally presented after effecting the adjustments in 2020 and prior years as discussed in Notes 5, 8 and 9.

Gearing Ratio
The Bank's Gearing Ratios computed at the end of each year are as follows:

December 31,	**2021**	2020
Borrowings (total liabilities)	**₱2,340,022,117**	₱2,054,019,890
Less cash and cash equivalents	**582,059,577**	420,391,686
Net Debt	**1,757,962,540**	1,633,628,204
Total equity	**255,288,281**	139,978,371
Equity and Net Debt	**₱2,013,250,821**	₱1,773,606,575
Gearing Ratio (Net Debt/Equity and Net Debt)	**0.87**	0.92

Gearing (otherwise known as "leverage") measures the proportion of assets invested in a business that are financed by long-term borrowing**.** In theory, the higher the level of borrowing (gearing) the higher are the risks to a business, since the payment of interest and repayment of debts are not "optional" in the same way as dividends to shareholders. However, gearing can be a financially sound part of a business's capital structure particularly if the business has strong, predictable cash flows.

The Bank will strive to reduce its gearing ratio by reducing working capital through increasing the speed of loans receivable collections and/or lengthening the days required to pay accounts payable, thereby producing cash that can be used to pay down borrowings. It will also try to increase profits through a combination of increase in market share and control of variable costs so that the Bank could generate more cash with which to pay down borrowings.

Debt to Equity Ratio
Capital for the reporting periods under review is summarized as follows:

December 31,	**2021**	2020
Total Liabilities	**₱2,340,022,117**	₱2,054,019,890
Total Equity	**255,288,281**	139,978,371
Overall financing	**₱2,595,310,398**	₱2,193,998,261
Debt-to-Equity Ratio	**9.17**	14.67

Disclosures Required Under Revised SRC Rule 68 (2019 Version)
As at December 31, 2021, the Bank has a total of 64 shareholders with 61 shareholders owning 100 or more shares each of the Bank's share capital.

Note 14
Details of Application Fees and Other Income

Years Ended December 31,	**2021**	2020
Application fees	**₱62,156,450**	₱46,078,982
Income from ATM operation	**9,464,517**	11,907,221
Overnight charges	**9,091,813**	7,961,048
Income from assets acquired *(Note 8)*	**5,644,136**	17,620,983
Bank charges	**2,132,597**	2,290,421
Inter-branch transaction fees	**2,053,111**	1,996,293
Check book fee	**1,081,359**	828,427
Income on POS	**818,007**	–
Income from remittance and other services	**680,728**	1,008,435
Gain on sale from bank premises fixtures, furniture/equipment *(Note 7)*	**524,896**	7,853,154
Inspection/appraisal fees	**289,877**	212,993
Recovery on charged-off assets	**122,728**	148,437
Insurance (service fees)	**478**	8,043,137
Miscellaneous	**2,575,853**	3,927,270
	₱96,636,550	₱109,876,801

Note 15
Details of Compensation

Years Ended December 31,	**2021**	2020
Short-term employees' benefits	**₱87,318,602**	₱78,020,954
Post-employment benefits	**3,600,000**	3,600,000
	₱90,918,602	₱81,620,954

Post-Employment Benefits
In 2018, the Bank maintained a tax-qualified, noncontributory retirement plan that was being administered by a trustee (Insurance Company) covering all regular full-time employees. However, beginning in 2019, the Bank decided not to continue the retirement plan from the Insurance Company and just to maintain and invest the allocated funds for retirement benefit with the treasury bonds with Land Bank of the Philippines.

As of December 31, 2021, the Bank has an unfunded, non-contributory defined benefit retirement plan which provides a retirement benefit, an amount equal to 75% on one (1) month final salary for every year of service multiplied by the number of years of services. Benefits are dependent on the years of service and the respective employee's compensation. If the employee voluntarily resigns from the Bank, he shall be entitled to receive all or portion of his accrued retirement benefits in accordance with the terms of the plan.

The amount of retirement benefit obligation as of December 31, 2021 and 2020 presented under Other Liabilities in Note 12, recognized in the statement of financial position is determined as shown below.

December 31,	**2021**	2020
Present value of obligation per Actuarial Valuation Report	**₱18,879,322**	₱18,781,324
Understatement of Retirement Benefit Obligation	**(3,202,344)**	(4,715,889)
Retirement benefit obligation as recorded *(Note 12)*	**₱15,676,978**	₱14,065,435

Principal Actuarial Assumptions Used

The following principal actuarial assumptions used in determining plan obligations as of December 31, 2021 and 2020 are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020. There were no plan amendments or curtailment, recognized as of December 31, 2021. The amounts of retirement benefits expense recognized per actuarial valuation report are as follows:

Years Ended December 31,	**2021**	2020
Current service cost	**₱1,474,184**	₱1,431,247
Interest cost on benefit obligation	**612,271**	700,629
	₱2,086,455	₱2,131,876

Current service costs and interest costs on defined benefit obligations are charged to retirement benefit obligation established for the purpose of covering any shortfalls in the required defined benefits payable. (See Note 12.)

Components of Retirement Benefit Costs Recognized in OCI

December 31,	**2021**	2020
Opening balances	**₱6,069,542**	₱7,535,852
Actuarial (gain) loss on defined benefit obligation	**–**	(2,022,497)
Deferred income tax *(Note 17)*	**–**	556,187
Closing balances	**₱6,069,542**	₱6,069,542

Computation of the Actuarial Gain (Loss)

Years Ended December 31,	**2021**	2020
(Gain) loss on defined benefit obligation	**₱–**	₱–
Gain (loss) on plan assets	**–**	2,022,497
Total Actuarial Gain	**₱–**	₱2,022,497

Movements in Present Value of the Retirement Benefit Obligation from Actuarial Valuation Report

December 31,	**2021**	2020
Opening balances	**₱18,781,324**	₱14,626,951
Actuarial (gain) loss	**–**	2,022,497
Current service cost	**1,474,184**	1,431,247
Interest cost	**612,271**	700,629
Benefits paid by the plan	**(1,988,457)**	–
Closing balances	**₱18,879,322**	₱18,781,324

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

December 31	**2021**	2020
Discounted rate	**3.26%**	3.26%
Salary increase rate)	**3.00%**	3.00%
Average expected working lives of employees	**27.21**	27.21

Assumptions regarding future mortality are based on the 1973-1978 Philippine Intercompany Mortality Table Basic. In 2018, the overall expected long-term rate of return on assets was 10%. The expected long-term rate of return was based on the portfolio as a whole and not on the sum of the returns in individual asset categories. The return was based exclusively on historical returns, without adjustments.

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020, assuming all other assumptions were held constant.

Discount Rate		*Future Salary Increase Rate*	
+1%	(₱918,216)	+1%	₱812,428
-1%	1,010,179	-1%	(754,030)

The average duration of the defined benefit obligation at the end of the reporting date is 6.17 years. Shown below is the expected twenty-year benefit cash flow:

	Amount		*Amount*
2020	₱3,192,449	2023	2,698,232
2021	3,197,241	2024	2,558,109
2022	3,001,926	2025-2039	21,015,796

Note 16

Details of Other Operating Expenses

Years Ended December 31,	**2021**	2020
Taxes, licenses and licenses *(Note 17)*	**₱33,118,891**	₱30,550,829
Security, messengerial and janitorial services	**12,826,694**	11,537,150
Travelling expenses	**9,265,986**	14,780,789
Communications	**8,339,279**	7,669,880
Insurance	**8,114,352**	8,002,064
Management and other professional fees	**6,724,557**	3,813,363
Power, light and water	**5,936,418**	5,302,440
Information and technology expenses	**3,661,267**	4,604,109
Collection fee charges	**3,625,667**	4,910,534
Stationery and supplies used	**3,478,786**	2,951,386
Representation and entertainment	**3,336,373**	2,303,169
Repairs and maintenance	**3,079,060**	3,041,341
Fuel, oil and lubricants	**2,966,279**	2,831,817
Commission	**2,495,785**	1,530,280
Rent *(Note 7)*	**2,410,038**	3,215,743
Interest on lease liabilities *(Note 7)*	**1,324,952**	1,074,438
Litigation of asset acquired	**817,471**	1,538,858
Banking fees	**643,923**	693,135
Miscellaneous	**3,056,656**	2,204,957
	₱115,222,434	₱112,556,282

Note 17
Computation of Income Tax Expense

Components of Income Tax Expense
The income tax expenses for 2021 and 2020 were based on the MCIT rates which proved to be higher than the regular rates as shown in the following tables. The details of income tax expense consist of the following:

Years Ended December 31,	**2021**	2020
Current		
Corporate tax at 25% in 2021 and 27.50% in 2020	**₱1,309,583**	₱529,657
Final tax at 20%	**632,568**	1,119,221
Total	**1,942,151**	1,648,878
Deferred		
Unused 30% deferred tax asset of written-off accounts *(Note 5)*	**497,114**	9,928,124
Deferred 25% tax on provision for impairment loan losses *(Note 5)*	**(2,065,000)**	–
Deferred 27.50% tax on provision for retirement benefits *(Note 15)*	**(900,000)**	(990,000)
Deferred excess of MCIT against RCIT	**(1,309,583)**	(529,657)
Total	**3,777,469**	8,408,467
	₱1,835,318	₱10,057,345

Current Tax Expense – Regular Corporate Income Tax (RCIT) Rate at 25% in 2021 and 27.50% in 2020

Years Ended December 31,	**2021**	2020
Profit before income tax expense, per statements of profit or loss	**₱44,324,492**	₱43,513,023
Reversal of accrued interest income in prior years *(see below)*	**–**	(78,900,404)
Profit (loss) before income tax expense for computation of tax expense	**44,324,492**	(35,387,381)
Add (deduct) reconciling items from permanent differences:		
Interest income on bank deposits already subject to final tax	**(3,162,838)**	(5,596,108)
Non-allowable interest expense (20% in 2021 and 26.50% in 2020)	**632,568**	1,482,969
Tax deficiency paid 2020 under taxes, licenses and fees account	**–**	1,500,350
Add (deduct) reconciling items from temporary differences:		
Interest on lease liabilities	**1,324,952**	1,074,438
Depreciation of right-of-use asset	**6,648,054**	5,396,025
Rent expense	**(7,162,958)**	(5,813,259)
Write-off of loans receivable *(Note 5)*	**–**	(33,093,746)
Actual retirement payment *(Note 15)*	**(1,988,457)**	–
Provision for retirement benefits *(Note 15)*	**3,600,000**	3,600,000
Taxable (loss) income	**52,475,813**	(66,836,712)
Deduct : NOLCO in 2020	**(66,836,712)**	–
Net Operating Loss Carry Over (NOLCO)	**(14,360,899)**	(66,836,712)
Tax Due at RCIT	**₱–**	₱–

New Income Tax Rates Beginning July 1, 2020
As provided in BIR Revenue Regulation No. 5-2021, the income tax expense is computed based on the new income tax rates on the regular income of corporations, on certain passive incomes, including additional allowable deductions from gross income of persons engaged in business or practice of profession pursuant to Republic Act (RA) No. 11534 or the 'Corporate Recovery and Tax Incentives for Enterprises Act' (CREATE), which further amended the National Internal Revenue Code (NRIC) of 1997.

Pursuant of the CREATE Act, the Bank's total assets, excluding the bank premises, furniture, fixtures and equipment and right-of-use asset on which the particular business entity's offices are situated, is more than

₱100 million and it has been operating for 4 years and more since the date of incorporation and the filing year with the BIR.

Thus, the Bank computed its new regular income tax rate at 25% in 2021 and average tax rate at 27.50% in 2020 (computed by adding the old tax rate at 30.00% for the period January 1 to June 30, 2020 plus the new tax rate at 25.00% for July 1 to December 31, 2020 divided by 2). For MCIT, the Bank computed income tax rate at 1% in 2021 and average rate at 1.50% in 2020 (computed by adding the old tax rate at 2.00% for the period January 1 to June 30, 2020 plus the new tax rate at 1.00% for July 1 to December 31, 2020 divided by 2).

Impact on the Booking of Adjustments on Accrued Interest Income
In 2020, the re-stated accrued interest income on loans receivable represents overstatement in recording interest income related to prior years computed by the manual system versus the computed/generated by the Weblon System per BSP recommendation during their audit in 2020 and which was recorded by the Bank as direct charges to deficit in 2020. The overstated interest income is claimed as a deduction in computing income tax due for 2020 since the returns in prior years had already been filed and was not amended.

NOLCO
The Net Operating Loss (unapplied) in 2020 amounting to ₱14,360,899 can be claimed as deduction against the taxable regular income until 2025 pursuant to BIR RR 25-2020.

MCIT Rate of 1% in 2021 and 1.50% in 2020

Years Ended December 31,	**2021**	2020
Gross Revenue		
Interest on loans receivable	**₱242,125,000**	₱198,387,218
Non-deductible interest expense	**632,568**	1,482,969
Other income	**96,636,550**	109,876,801
Total Gross Revenue	**339,394,118**	309,746,988
Cost of Services		
Interest expense	**61,227,502**	58,179,524
Salaries	**53,272,036**	47,693,447
Reversal of accrued interest income on loans receivable	**–**	78,900,404
Depreciation expense	**9,193,982**	7,556,592
Other expenses	**84,742,308**	82,106,572
Total Cost of Services	**208,435,828**	274,436,539
Gross Profit	**130,958,290**	35,310,449
Tax rate	**1%**	1.50%
Tax Due at MCIT	**₱1,309,583**	₱529,657

Computation of Net Income Tax Payable

December 31,	**2021**	2020
Regular Corporate Income Tax or MCIT whichever is higher	**₱1,309,583**	₱529,657
Less : Tax Credits		
Excess payment in prior year	**323,745**	
BIR Form No. 2307	**–**	4,810
Tax payments for the first three quarters	**395,331**	848,592
Income tax (excess) payable	**₱590,507**	(₱323,745)

The MCIT amounted ₱1,309,583 in 2021 and ₱529,657 in 2020, can be claimed as tax credit against regular tax due until 2024 and 2023, respectively.

Current Tax Expense – Final

This represents the final withholding taxes on interest income on bank deposits and investments.

Movements of Deferred Tax Assets

December 31,	**2021**	2020
Opening balances, originally stated	**₽53,591,505**	₽59,464,666
30% deferred asset on provision for impairment losses *(Notes 5, 8, & 9)*	**29,107,380**	29,107,380
Opening balances, as restated	**82,698,885**	88,572,046
Origination of temporary differences arising from:		
Minimum Corporate Income Tax (MCIT)	**1,309,583**	529,657
Provision for impairment loan losses *(Note 5)*	**2,065,000**	
Provision for retirement benefits *(Note 15)*	**900,000**	990,000
Adjustment due to merger	**–**	1,979,119
Actual retirement payment *(Note 12)*	**(497,114)**	–
Written-off loans receivable *(Note 5)*	**–**	(9,928,124)
Actuarial gain on defined benefit obligation *(Note 15)*	**–**	556,187
Closing balances	**₽86,476,354**	₽82,698,885

Management has determined that the deferred tax assets have not been impaired at the end of the year and that its anticipated future profits can benefit from the deferred tax assets.

Details of Taxes, Licenses and Fees

Years Ended December 31,	**2021**	2020
Business Taxes		
Gross Receipt Tax	**₽17,804,378**	₽16,987,345
Business and realty tax, vehicles registration & others	**15,314,513**	13,563,484
Sub-Total	**33,118,891**	30,550,829
Other Taxes Paid		
Compensation and Expanded withholding taxes	**4,794,186**	4,397,296
Documentary stamp taxes	**12,376,274**	9,922,923
Final taxes	**7,295,124**	4,517,908
Sub-Total	**24,465,584**	18,838,127
Total	**₽57,584,475**	₽49,388,956

Note 18

Earnings Per Share

Years Ended December 31,	**2021**	2020
Basic		
Profit for the year	**₽46,159,810**	₽33,455,678
Weighted average number of ordinary (common) shares	**2,932,754**	2,753,649
Basic Earnings per Share	**₽15.74**	₽12.15

Diluted

Years Ended December 31,	**2021**	2020
Profit for the year	**₽46,159,810**	₽33,455,678
Weighted average number of ordinary and potential ordinary shares	**2,932,754**	2,753,649
Diluted Earnings per Share	**₽15.74**	₽12.15

Note 19
Related Party Transactions

In the ordinary course of trade or business, the Bank has transactions with related parties. Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. None of the transactions with related parties incorporate special terms and conditions and no guarantee is given or received. Outstanding balances are usually settled in cash.

The significant related party transactions are summarized below:

a) In the ordinary course of business, the Bank has loan transactions with DOSRI. The following are the information related to DOSRI:

December 31,	**2021**	2020
Total Outstanding DOSRI loans	**₱45,383,707**	₱3,774,425
Percent of DOSRI loans to total loans	**2.38%**	0.23%
Percent of unsecured DOSRI loans to total DOSRI loans	**3.78%**	0.00%
Percent of past-due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

Under the Bank's policy, these loans and other transactions are to be 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.

As of December 31, 2021, the Bank is in compliance with these regulations.

b) The Bank also extends advances subject to liquidation to its officers and employees. Total advances to officers and employees amounted to ₱275,097 in 2021 and ₱547,626 in 2020. (See Note 5.)

c) The key management compensation consists of the following:

Years Ended December 31,	**2021**	2020
Short-term employees' benefits	**₱6,735,827,**	₱6,708,852
Post-employment benefits	**364,400**	327,046
	₱7,100,227	₱7,035,898

Note 20
Fair Value Measurement

Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table in the following page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the 2020 statement of financial position but for which fair value is disclosed.

December 31, 2021	*Level 1*	*Level 2*	*Level 3*	***Total***
Financial assets				
Cash and cash equivalents *(Note 4)*	₱582,059,577	₱–	₱–	**₱582,059,577**
Loans and other receivables *(Note 5)*	–	–	1,654,757,912	**1,654,757,912**
Investments in debt securities *(Note 6)*	–	–	46,515,088	**46,515,088**
	₱582,059,577	₱–	1,701,273,000	**₱2,283,332,577**
Financial liabilities				
Deposit liabilities *(Note 10)*	₱2,193,434,954	₱–	₱–	**₱2,193,434,954**
Bills payable *(Note 11)*	1,083,545	–	–	**1,083,545**
Other liabilities *(Note 12)*	127,081,325	–	–	**127,081,325**
Lease liabilities *(Note 7)*	18,422,293	–	–	**18,422,293**
	₱2,340,022,117	₱–	₱–	**₱2,340,022,117**
December 31, 2020				
Financial assets				
Cash and cash equivalents *(Note 4)*	₱420,391,686	₱–	₱–	₱420,391,686
Loans and other receivables *(Note 5)*	–	–	₱1,413,548,635	1,413,548,635
Investments in debt securities *(Note 6)*	–	–	39,548,428	39,548,428
	₱420,391,686	₱–	₱1,453,097,063	₱1,873,488,749
Financial liabilities				
Deposit liabilities *(Note 10)*	₱1,868,906,030	₱–	₱–	₱1,868,906,030
Bills payable *(Note 11)*	46,922,058	–	–	46,922,058
Other liabilities *(Note 12)*	124,537,406	–	–	124,537,406
Lease liabilities *(Note 7)*	13,654,396	–	–	13,654,396
	₱2,054,019,890	₱–	₱–	₱2,054,019,890

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments equal their fair values. The fair values of the financial assets and financial liabilities included in Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counter-parties or is calculated based on the expected cash flows of the underlying net asset base of the instrument. When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

Fair Value Measurement for Non-financial Assets

The following table shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2021 and 2020.

December 31, 2021	*Level 1*	*Level 2*	*Level 3*	***Total***
Bank prems, etc./ROUA *(Note 7)*	₱–	₱–	74,068,080	**₱74,068,080**
Investment properties *(Note 8)*	–	–	115,068,066	**115,068,066**
Other assets *(Note 9)*	106,212,887	–		**106,212,887**
	106,212,887	₱–	189,136,146	**₱295,349,033**
December 31, 2020				
Bank prems, etc./ROUA *(Note 7)*	₱–	₱–	₱ 63,174,980	₱63,174,980
Investment properties *(Note 8)*	–	–	123,495,101	123,495,101
Other assets *(Note 9)*	121,168,492	–		121,168,492
	₱121,168,492	₱–	₱186,670,081	₱307,838,573

The Level 3 fair value of the land and buildings and improvements included under the Bank Premises, Furniture, Fixtures, and Equipment account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence.

The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

Note 21
Risk Management Objectives and Policies

The Bank is exposed to a variety of financial risks in performing its activities. The main types of risks it is facing are market risk, credit risk and liquidity risk. The Board of Directors has overall responsibilities for the Bank's financial risk management, which includes the establishment and approval of risk strategies, policies and limits. The main objective of the financial risk management of the Bank is to minimize the adverse impact of financial risks on the Bank's financial performance and financial position.

Credit Risk Analysis
The Bank is mostly exposed to credit risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position. Credit risk therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the carrying amount of the financial assets. The Bank manages the level of credit risk by actively monitoring its portfolio to avoid significant concentrations of credit.

As at December 31, 2021, the Bank's financial assets are composed of the following:

December 31, 2021	*Neither Past Due Nor Impaired*	*Past Due But Not Impaired*	***Total***
Cash and cash equivalents *(Note 4)*	₱582,059,577		**₱582,059,577**
Loans and other receivables *(Note 5)*	1,654,757,912		**1,654,757,912**
Investments in debt securities *(Note 6)*	46,515,088		**46,515,088**
	₱2,283,332,577		**₱2,283,332,577**

The Bank manages the level of credit risk by actively monitoring all its receivables to avoid significant delinquency.

Market Risk Analysis
Market risk is the possibility that changes in equity prices or interest rates will adversely affect the value of the Bank's assets, liabilities or expected future cash flows. The Bank has no exposure arising from complex investments since it is not engaging in high risk investments, forward contracts, hedging, and the likes, whether local or foreign transactions.

(a) *Price risk.*
The Bank has no exposure to price risks as it has no investment in quoted equity and debt securities.

(b) *Interest rate risk.*
The Bank's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that

changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its financial assets. The Bank's asset-liability profile is such that interest on its financial assets has short term maturities while interest rates on its bills payable and its time deposits are primarily fixed. The Bank's loan portfolio is primarily of fixed rates instruments.

As a part of the Bank's risk management strategy, the Board established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with the Bank's enterprise risk appetite and the Bank aligns its accounting objectives to keep exposures within those limits.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative instruments at the reporting date. For liabilities with variable interest rates, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Bank's income before income tax.

	Increase (Decrease) in Interest Rate	*Effect on Equity*
2021	+0.05%	₱590,431
	-0.05%	(590,431)
2020	+0.05%	434,263
	-0.05%	(434,263)

Liquidity Risk Analysis

The Bank is likewise exposed to liquidity risk, the risk that it will encounter difficulty in meeting its obligations as they become due without incurring unacceptable losses or costs. The Bank's objectives to manage its liquidity profile are: (a) to ensure that adequate funding is available at all times; (b) to meet commitments as they arise without incurring unnecessary costs; and (c) to be able to access funding when needed at the least possible cost.

The Bank manages its liquidity by carefully monitoring its scheduled debt servicing payments for long-term financial liabilities as well as its cash flows due on its day-to-day business.

Maturity Analysis of Assets and Liabilities

December 31, 2021	*Within One Year*	*Beyond One Year*	***Total***
Financial Assets			
Cash and cash equivalents *(Note 4)*	₱582,059,577	₱–	**₱582,059,577**
Loans and other receivables *(Note 5)*	1,337,185,923	317,571,989	**1,654,757,912**
Investments in debt securities *(Note 6)*		46,515,088	**46,515,088**
Non-financial Assets			
Bank prems, etc./ROUA *(Note 7)*		90,696,868	**90,696,868**
Investment properties *(Note 8)*		115,068,066	**115,068,066**
Other assets *(Note 9)*	106,212,887		**106,212,887**
Total Assets	₱2,025,458,387	₱569,852,011	**₱2,595,310,398**
Financial Liabilities			
Deposit liabilities *(Note 10)*	₱1,807,784,546	₱385,650,408	**₱2,193,434,954**
Bills payable *(Notes 11)*	683,529	400,016	**1,083,545**
Other liabilities *(Note 12)*	111,404,347		**111,404,347**
Lease liabilities *(Note 7)*	18,422,293		**18,422,293**

(Carried Forward.)

(Brought Forward.) *December 31, 2021*	*Within One Year*	*Beyond One Year*	***Total***
Non-financial Liabilities			
Retirement benefit obligation *(Notes 12 and 15)*		15,676,978	**15,676,978**
Total Liabilities	₱1,938,294,715	₱401,727,402	**₱2,340,022,117**
December 31, 2020			
Financial Assets			
Cash and cash equivalents *(Note 4)*	₱420,391,686	₱–	**₱420,391,686**
Loans and other receivables *(Note 5)*	1,152,705,520	260,843,115	**1,413,548,635**
Investments in debt securities *(Note 6)*		39,548,428	**39,548,428**
Non-financial Assets			
Bank prems, etc./ROUA *(Note 7)*		75,845,919	**75,845,919**
Investment properties *(Note 8)*		123,980,101	**123,980,101**
Other assets *(Note 9)*	121,168,492		**121,168,492**
Total Assets	₱1,694,265,698	₱499,732,563	**₱2,193,998,261**
Financial Liabilities			
Deposit liabilities *(Note 10)*	₱1,523,739,040	₱345,166,990	₱1,868,906,030
Bills payable *(Notes 11)*	34,746,700	12,175,358	46,922,058
Other liabilities *(Note 12)*	110,471,971		110,471,971
Lease liabilities *(Note 7)*	13,654,396		13,654,396
Non-financial Liabilities			
Retirement benefit obligation *(Notes 13 and 16)*		14,065,435	14,065,435
Total Liabilities	₱1,682,612,107	₱371,407,783	₱2,054,019,890

Note 22
Events After Reporting Date – Onslaught of the Coronavirus Disease (2019)

At the time of the authorization of these financial statements, the Philippine Government continues to implement quarantine protocols nationwide as its effective measures against the spread of the Corona Virus (COVID-19). Beginning 1 March 2022 and again beginning 1 April 2022, the National Capital Region (NCR) and 38 other areas were placed under Alert Level 1. This risk classification is implemented on a two-week period and the government may once again raise the alert level if cases and hospital utilization rates increase.

Under Alert Level-1, conditions that qualifies an area are 1) minimal to low-risk classification of case transmission; 2) total hospital beds utilization is less than 50%; 3) 70% of area's target population has been fully vaccinated and; 4) 80% of area's target Senior citizens population has been fully vaccinated. The Philippines is still at a level where it is transitioning to a new normal and the state of public emergency is still in effect.

Under Alert Level-1, all business establishments can operate at full capacity with the required minimum health and safety protocols (vaccination, ventilation, social distancing, amongst others) strictly observed such as: (1) wearing of well-fitted face masks at all times, whether outdoors or in indoor private or public establishments, including in all public transportation; (2) 100% on-site workforce for agencies and instrumentalities of the Government; (3) all private offices and workplaces, including public and private construction sites, may operate at full 100% capacity; however, flexible and alternative work arrangements may continue as deemed appropriate based on function or individual risk; (4) public transportation in areas under Alert Level 1 shall be at full seating capacity, and (5) presentation of proof of full vaccination is required before entry into indoor establishments and or participation in mass gathering(s) (children ages 17 and below shall not be required to present proof of vaccination status).

The Alert Level System is actually a community quarantine classification system that assigns numbers to the level of measurable factors signifying transmission cases, where Alert Level 1 indicates low and decreasing transmission, low total bed utilization rate, and low intensive care unit utilization rate, and where Alert Level 5 signifies alarming case counts, and where the bed utilization rate and intensive care unit utilization rate are at critical utilization levels. Source: https://www.flandersinvestmentandtrade.com/export/nieuws/coronavirus-situation-philippines

The Bank's management has determined that the COVID-19 Pandemic has affected its operations along the following aspects:

(1) The implementation of Bayanihan Acts 1 and 2 lowered the income of the bank. The supposed two (2) to four (4) months outright collection and recognition of income were given grace period and were amortized and spread up to the remaining term of the loan.
(2) The implementation of skeletal manpower, shortened banking and working hours, and temporary "No Saturday work schedule" to minimize interaction with clients and mitigate exposure of the Bank's personnel to health hazard hampered the marketing and promotion of the Bank's products and services.
(3) Lockdowns and restrictions in areas of operation due to covid-19 have also disrupted collections of accounts;
(4) Forced "temporary" stoppage of some business establishments and activities particularly in tourism industry and eateries slightly increased the Bank's non-performing loans as these are greatly affected accounts in the government's containment of the spread of the virus.
(5) The Bank also employed a conservative posture in the entertainment of new loan applications with the volatile business condition due to the pandemic as a defensive mode for possibilities of adverse business impact.

The Bank has determined that the impact of COVID-19 will continue to be felt in 2021 and that there have been no adjustments necessary on its 2020 financial statements.

Note 23
Authorization of Financial Statements

The Rural Bank's financial statements as of and for the year ended December 31, 2021, were authorized for issue by the Bank's President on April 12, 2022.

SUPPLEMENTARY SCHEDULE TO THE FINANCIAL STATEMENTS

Annex I	Reconciliation of Retained Earnings Available for Dividend Declaration
Annex II	Supplementary Information Required By The BSP

Annex I

SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

Enterprise Bank, Inc. (A Rural Bank)

December 31,	**2021**	2020
UNAPPROPRIATED RETAINED EARNINGS OPENING BALANCES, AS ORIGINALLY STATED	**(₱96,974,757)**	(₱51,530,031)
ADJUSTMENT TO RESTATE BEGINNING BALANCES	**(87,322,141)**	(166,222,545)
UNAPPROPRIATED RETAINED EARNINGS OPENING BALANCES, AS RESTATED	**(184,296,898)**	(217,752,576)
NET INCOME ACTUALLY EARNED/REALIZED DURING THE YEAR	**46,159,810**	33,455,678
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED	**(138,137,141)**	(184,296,898)
ADD (DEDUCT)		
Dividends declared during the fiscal year		
Appropriations of Retained Earnings during the fiscal year	–	–
Reversals of appropriation during the fiscal year	–	–
	–	–
UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION	**(₱138,137,141)**	(₱184,296,898)

SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Enterprise Bank, Inc. (A Rural Bank)

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks.*

(a) Selected Financial Performance Indicators

December 31,	**2021**	2020
Return on average equity*: (Net Profit/Average Total Capital Accounts)	**23.36%**	20.93%
Return on average equity*: (Net Profit/Average Total Resources)	**1.93%**	1.53%
Net interest margin*: (Net Interest Income/Average Interest Earnings Resources)	**9.13%**	8.01%

** Average asset, capital, and interest-earning assets are computed as the simple average of outstanding balance of assets, capital, and interest-earning assets at December 31, 2020 and December 31, 2021. (2 data points)*

(b) Capital Instruments Issued

As of December 31, 2021 and 2020, the Bank has only two classes of capital stock, which are common and preference shares.

The Bank consider its common stock and preferred stock as capital instruments eligible as Tier 1 and Tier 2 capitals.

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL below are disclosed in Note 5.

December 31,	**2021**	%	2020	%
Agricultural	**₱283,920,041**	15	₱99,225,877	7
Wholesale and retail trade	**239,595,562**	13	277,523,520	19
Others	**1,379,543,648**	72	1,233,624,755	74
	₱1,903,059,251	15	₱1,610,374,152	100

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

(d) Breakdown of Loans

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

Breakdown by Type of Security

December 31,	**2021**	%	2020	%
Unsecured	**₱1,578,186,534**	**83**	₱1,288,222,573	80
Secured	**324,872,717**	**17**	322,151,579	20
	₱1,903,059,251	**100**	₱1,610,374,152	100

Breakdown as to Status of Loans (Past Due Performing and Past Due Non-Performing)

December 31, 2021	*Performing*	%	*Non-Performing*	%	***Total***	%
Agricultural	₱177,841,946	12%	₱106,078,095	25%	**₱283,920,041**	**15%**
Commercial (SME)	263,094,099	18%	25,736,192	10%	**113,617,102**	**15%**
Others–personal consumption	1,033,081,117	70%	297,227,801	65%	**1,505,522,108**	**70%**
	₱1,474,017,162	100%	₱429,042,089	100%	**₱1,903,059,251**	**100%**
December 31, 2020						
Agricultural	₱102,052,878	9	₱105,009,449	24	₱207,062,327	13
Commercial (SME)	296,865,378	25	29,199,219	6	325,064,597	20
Others–personal consumption	784,246,730	66	294,000,499	70	1,078,247,228	67
	₱1,183,164,986	100	₱427,209,166	100	₱1,610,374,152	100.00

Non-Performing Loans

The non-performing loans as defined under Section 304 of the MORB amounted ₱429,042,089 in 2021 and ₱427,209,166 in 2020.

Under Section 304 of the MORB, loans are considered nonperforming, *'even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered nonperforming if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.'*

(e) Information on Related Party Loans

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Bank.

The following table shows information on related party loans as reported to the BSP:

December 31,	**2021**	2020
Total Outstanding DOSRI loans	**₱45,383,707**	₱3,774,425
Percent of DOSRI loans to total loans	**2.38%**	0.23%
Percent of unsecured DOSRI loans to total DOSRI loans	**3.78%**	0.00%
Percent of past-due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

(f) Secured Liabilities and Assets Pledged as Security

During 2021 and 2020, about ₱1.1 million and ₱53.8 million as of December 31, 2021 and 2020, respectively, have been pledged as security to the bills payable of the Bank.

(g) Contingencies and Commitments Arising from Off-balance Sheet Items

During 2021 and 2020, there were no contingencies and commitments arising from off-balance sheet items that were recognized by the Bank.