Welcome

Welcome Bank (Rural Bank), Inc.

# 2021

# ANNUAL REPORT

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# CORPORATE POLICY

**Our Mission**

To become one of the most dynamic and well managed Bank in the Philippines.

**Our Vision**

To contribute to the society by creating the best value based on people and knowledge.

**Our Core Values**

***High Integrity***

means exercising the highest ethical standards in all personal and professional dealings.

***Professional Digitalization***

means performing tasks accurately, efficiently and effectively. Gong extra mile and rising above expectations by continuously improving products and services; systems and processes to deliver the best possible results.

***Financial Excellence Provider***

means ability to satisfy and delight our customers and enabling small savers to achieve greater productivity and small borrowers to have better access to funds.

**Our Market**

As the Bank aimed to fulfill its vision mission and with the fast evolving banking business based on digitalized environment, the Bank strategic plan can contribute to the accessibility to financial market and financial transaction of those with unavailable credit history or financial records thus fostering financial inclusion of the unbanked segment of the community.

In the Bank's efforts to transform its banking services and operations into digital-centric or Fintech ready, it can accommodate more customers to enjoy seamless and convenient services without leaving the comforts of their homes and ensures their health and safety from the infectious COVID 19 plaguing not only the country but globally.

## BUSINESS TRANSITION HISTORY

☑ The two joint-venture partners – Welcome Financial Group (Korea) and Flowtiger Ventures Inc. (Philippines) have entered Philippines financial market by establishing Welcome Finance, Inc. in May 2014, and since then have serviced consumer loans to small business operators as well as salaried customers.

☑ In November 2018, the same two partners have signed "Share Purchase Agreement" to acquire Smart Bank (Rural Bank), Inc. with a view to availing the banking license.

☑ BSP approval was released for;
- Share transfer: August 2019
- Relocation of head office from Muntinlupa City to Pasig City: December 2019
- Bank name change to Welcome Bank (Rural Bank), Inc.: April 2020

☑ Re-opening and business resumption under Welcome Bank logo: Oct 2020

05/30/2021

## BUSINESS MODEL

☑ Taking the full advantage of the accumulated experience in Philippines financial market since May 2014 via Welcome Finance, Inc., Welcome Bank (Rural Bank), Inc. (WLCM) will focus on consumer loan market in the beginning stage.
- Small business operator: Business Loan, Premier Business Loan
- Salaried customer: Salary Loan, Personal Loan, Personal Happy Loan
- Secured Loan: Condo-mortgaged loan, Auto loan

☑ At later stage, WLCM will expand its loan target customers to corporate borrowers.

☑ Given the weak branch networks and reputations of WLCM, competitive interest will be offered to depositors.
- Time deposit: target to rich customers with higher deposit interest offerings.
- Savings deposit: target general public customers with slightly higher interest.
- Demand deposit: service to mainly corporate customers.

05/30/2021

## President's Report

Considered by many amidst the corona pandemic that hit the world in early 2020, Welcome Bank achieved its unassuming yet reasonable goal of balanced growth in 2021. Driven by multi-faceted incentive programs, diversified digital loan origination channel and strong performance of branches and agencies, the Bank surged ahead in deposit and loan generation.

The launching of pioneering loan products in 2021 and the digital marketing channel contributed not only to loan volume growth, but also in the reduced overall loan acquisition cost.

The positive actions have resulted to the following in the financial position as of 31 December 2021:

- Total Assets and resources of the Bank grew by 76.62% to P539 million from year 2020 P126 million;
- Total Liabilities went up by 91.86% to P478 million from P39 million;
- Total Loans surged by 90.96% to P182 million from P16 million;
- Total Equity closed at P61.495 million.

Welcome Bank posted a Comprehensive Net Loss of P25.635 million after providing for P6.5 million general loan loss and expected credit loss provisions for the year.

The impact of corona pandemic since March 2020, and it is, in fact, still on going, the defaulted loan asset is gradually relaxed, on the other hand, the competition in the loan market is growing and other banks and financing companies started to market their loan products more aggressively than ever with an eye to recover from their squeezed loan portfolio for the last two years.

In such market circumstances it will be challenging for us to achieve our sales goal in the future. However, I am very confident that we will be able to keep growing on the excellent teamwork among our well-trained and skillful manpowers as long as all of us exert our best effort in a smart way.

We are grateful to the shareholders and Board of Directors for their generous support, business associates for their hardwork and loyal clients for making Welcome Bank (Rural Bank), Inc. their preferred bank.

Together, we look forward to a better position towards achieving our balanced goals in the year 2022.

## Financial Highlights

In Year 2021 with the contagious COVID 19 pandemic continued affecting all businesses and the country's economy as a whole. The Bank strategically and extensively sourced deposits that provided the funds to loan to ordinary consumers and businessmen alike as the BSP provided the cushion through regulatory relief to financial institutions under their supervision.

## Selected Financial Information

Comparison of the financial highlights for 2021 and 2020 based on Audited Financial Statements certified by our external auditors, AMC & Associates.

(Amounts in thousand Pesos)

| | 2021 | 2020 | Inc. (Dec.) |
|---|---|---|---|
| Gross Revenues | 56,139 | 4,688 | 51,451 |
| Net Profit (Loss) | (25,635) | (11,855) | (13,780) |
| Income Tax Paid | (7,195) | (5,021) | (2,174) |
| Cash & Due from Banks | 298,852 | 52,589 | 246,263 |
| Investments | 970 | 1,174 | (204) |
| Loan Portfolio, Net | 182,277 | 16,475 | 165,802 |
| Total Assets | 539,445 | 126,013 | 413,432 |
| Total Deposits | 289,779 | 24,309 | 265,470 |
| Capital Funds | 61,496 | 87,131 | -25,635 |

Total Assets and resources of Welcome Bank for 2021 amounts P539 million. There was a 76.64% increase amounting to Php413 million from 2020's amount of Php126 million.

Total Liabilities for 2021 is Php477.949 million which yielded an increase of Php439 million or 91.86% over 2020's liabilities level of Php38.882 million brought about by the increase in Deposit Liabilities of Php265.47 million.

The equity was at Php61.495 million which is below the minimum capital requirement of P75 million.

The Bank posted a Net Loss of Php25.635 million for the year which is 53.76% more than that of 2020 of P11.855 million.

The Net Loss is due to the increase of the following expenses: Interest Expense P8.731 million or 95.21%; Compensation and Fringe benefits Php27.665 Million at 72.67%; Depreciation and amortization P7.147 million at 62.93% ; Taxes and Licenses Php5.963 Million at 88.56% and Other Administrative Expenses Php28.720 Million at 69.71%. Despite the increase in Interest Income to Php39.398 million or 95.76% and Other Income of 13.685 Million or 99.79 %, Welcome Bank still closed the year 2021 with a Php25,635,372.00 Comprehensive Net Loss and booked the General Loan Loss and Expected Credit Loss provisions of Php6,530,827.00.



**Comparative Balance Sheet**

**As of December 31, 2021 and 2020**

(Rounded to Nearest Peso)

| | | | INCREASE (DECREASE) | |
|---|---|---|---|---|
| | Dec. 31, 2021 | Dec. 31, 2020 | AMOUNT | Percent (%) |
| **ASSETS** | | | | |
| **Cash & Other Cash Items** | **632,013** | 1,187,116 | 555,103 | 88% |
| **Due from BSP** | **5,980,649** | 557,771 | (5,422,878) | -91% |
| **Due from Other Banks** | **292,239,099** | 50,844,272 | (241,394,827) | -83% |
| **Held to Maturity** | **969,942** | 1,173,986 | (204,044) | 21% |
| **Loans & Receivable (Net)** | **182,277,182** | 16,475,474 | (165,801,708) | -91% |
| **Bank Premises, Furn.,Fixt., Eqpt** | **24,317,233** | 27,100,991 | 2,783,758 | 11% |
| **Right-of-use asset** | **1,688,541** | 6,093,430 | 4,404,889 | 261% |
| **Intangible assets** | **10,801,386** | 9,852,797 | 9,852,797 | 9% |
| **Other Assets** | **20,539,465** | 12,727,568 | 11,568,940 | 38% |
| **TOTAL ASSETS** | **539,445,510** | **126,013,405** | **42,589,736** | **-77%** |
| **LIABILITIES** | | | | |
| **Deposit Liabilities** | **289,779,331** | 24,309,005 | 15,530,768 | -92% |
| **Bills Payable** | **100,000,000** | - | 0 | -100% |
| **Deposits for stock subscription** | **74,939,894** | | | -100% |
| **Lease Liabilities** | **1,879,230** | 6,219,476 | 6,219,476 | 231% |
| **Accrued interest and other liabilities** | **11,351,219** | 8,353,719 | 7,694,159 | -26% |
| **TOTAL LIABILITIES** | **477,949,677** | **38,882,200** | **29,444,403** | **-92%** |
| **EQUITY** | | | | |
| **Capital Stock** | **100,000,000** | 100,000,000 | 0 | **0%** |
| **Surplus Free** | **(38,504,167)** | (12,868,795) | (11,854,667 ) | -67% |
| **TOTAL EQUITY** | **61,495,833** | **87,131,205** | **25,635,372** | 42% |

| | | | | |
|---|---|---|---|---|
| **TOTAL LIABILITIES & EQUITY** | **599,445,510** | **126,013,405** | **-413,432,105** | **-77%** |

## Comparative Income Statements

**For the Years 2021 - 2020**

**(Rounded to nearest Peso)**

| | | | Increase/(Decrease) | |
|---|---|---|---|---|
| **INCOME** | **2021** | **2020** | **Amount** | **Percent %** |
| **Interest Income:** | | | | |
| Loans & Other receivables | 38,843,844 | 1,078,539 | (37,765,305) | -97.22% |
| Bank deposits | 509,948 | 554,056 | 44,108 | 8.65% |
| Financial assets | 44,404 | 39,436 | (4,968) | -11.19% |
| Total Interest Income | **39,398,196** | **1,672,031** | **(37,726,165)** | **-95.76%** |
| **Interest Expense:** | | | | |
| **Deposit liabilities** | 6,103,936 | 272,034 | (5,831,902) | -95.54% |
| Bills Payable | 2,383,332 | 0 | (2,383,332) | -100.00% |
| Lease Liabilities | 243,895 | 146,604 | (97,291) | -39.89% |
| | **8,731,163** | **418,638** | **(8,312,525)** | **-95.21%** |
| **NET INTEREST INCOME** | **30,667,033** | **1,253,393** | **(29,413,640)** | **-95.91%** |
| **PROVISION FOR CREDIT AND IMPAIRMENT LOSSES** | **6,530,827** | **0** | **(6,530,827)** | **-100.00%** |
| **NET INTEREST INCOME AFTER CREDIT AND IMPAIRMENT** | **24,136,206** | **1,253,393** | **(22,882,813)** | 0.11% |
| **OTHER INCOME** | | | | |
| Rentals | 2,968,432 | 2,971,716 | 3,284 | 0.11% |
| Recovery on charges off assets | 0 | 15,000 | | |
| Service Charge-Fees | 87,275 | 594 | (86,681) | -99.32% |
| Other Income | 13,685,226 | 28,788 | (13,656,438) | -99.79% |
| | **16,740,933** | **3,016,098** | **(13,724,835)** | **-81.98%** |

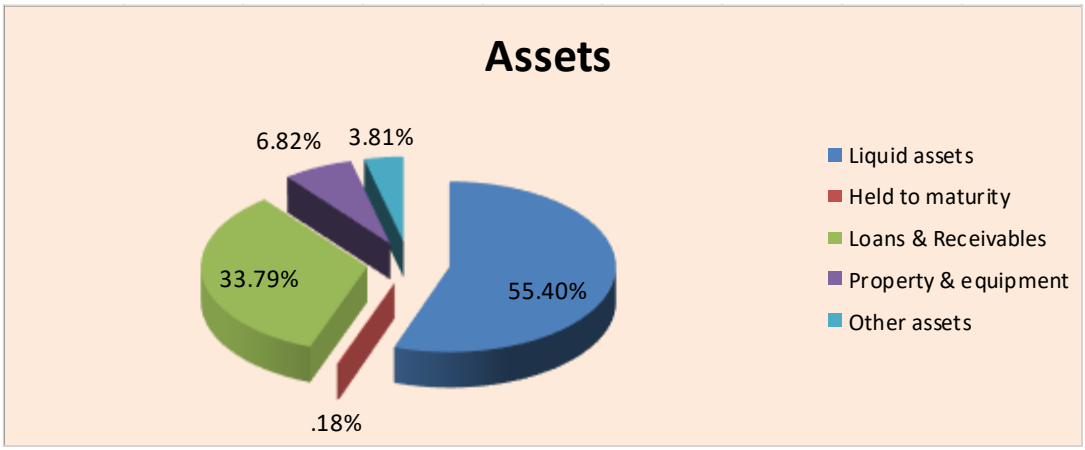
| | | | | |
|---|---|---|---|---|
| **OTHER EXPENSES** | | | | |
| **Compensation & Fringe Benefits** | 27,665,827 | 7,553,301 | (20,112,526) | -73% |
| **Depreciation & Amortization** | 11,357,798 | 4,210,382 | (7,147,416) | -63% |
| **Taxes & Licenses** | 5,963,921 | 682,493 | (5,281,428) | -89% |
| **Foreign exchange loss-net** | 0 | 3,466 | 3,466 | 0.0% |
| **Other Administrative expenses** | 28,720,046 | 8,695,097 | (20,024,949) | -70% |
| | **73,707,592** | **21,144,739** | **(52,562,853)** | **-71%** |
| **PROFIT (LOSS) BEFORE TAX** | (32,830,453) | (16,875,248) | 15,955,205 | -49% |
| **TAX EXPENSE (BENEFIT)** | (7,195,081) | (5,020,581) | 2,174,500 | -30% |
| **NET PROFIT (LOSS)** | **(25,635,372)** | **(11,854,667)** | **13,780,705** | **-54%** |

## FINANCIAL SUMMARY (Thousand Pesos)

| **Profitability:** | **2021** | **2020** |
|---|---|---|
| Net Interest Income | **30,667** | 1,253 |
| Non – Interest Income | **16,741** | 3,016 |
| Non- Interest Expense | **73,708** | 21,145 |
| Profit before tax & provision | **(32,830)** | (16,875) |
| Income tax | (**7,195)** | (5,021) |
| Provision for Impairment/Losses | **0** | 0 |
| Net Income (Loss) | **(25,635)** | (11,855) |
| **Balance Sheet:** | | |
| Liquid Assets | **298,852** | **5**2,589 |
| Gross Loans | **182,277** | 16,475 |
| Total Assets | **539,445** | **1**26,013 |
| Deposits | **289,779** | 24,309 |
| Total Equity | **61,495** | 87,131 |
| **Capital Structure & Adequacy:** | | |
| Tier 1 capital | | |
| Common Stock | 100,000 | 100,000 |
| Deficit | (12,869) | (1,014) |
| Comprehensive loss for the year | (25,635) | (11,854) |
| Less: Deferred Tax Asset | 13,443 | 5,943 |
| Total | **48,052** | **81,188** |
| Tier 2 Capital | | |
| General Loan Loss provision | **1,**680 | 336 |
| Total Qualifying Capital | **49,733** | **81,523** |
| Risk-weighted Assets | 522,427 | 115,656 |

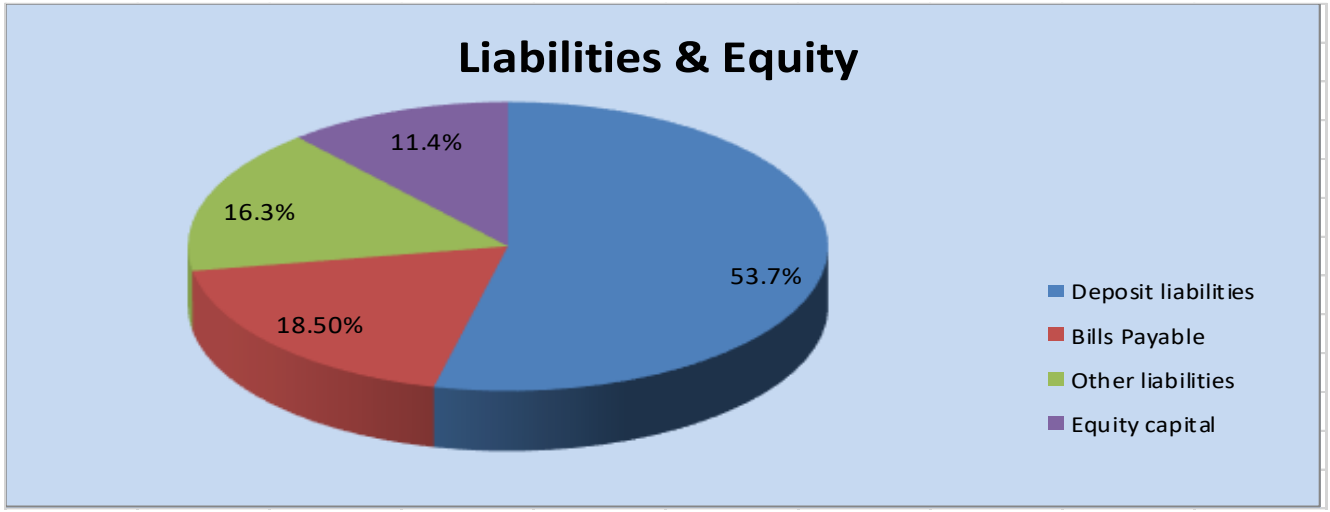
| | | |
|---|---|---|
| Capital Adequacy Ratio | **9.52%** | **70.49%** |

Composition and percentage of each asset account to total resources as of December 31, 2021 is shown below. Total earning assets (loans and investments) account for only 33.79% of total assets.




**ASSET (% and in thousand Pesos)**

| | | |
|---|---|---|
| Liquid Assets | 55.40% | 298,852 |
| Held to Maturity | .18% | 970 |
| Loans &Receivable | 33.79% | 182,277 |
| Property & Equipment | 6.82% | 36,807 |
| Other Assets | 3.81% | 20,539 |
| | 100.0% | 539,445 |

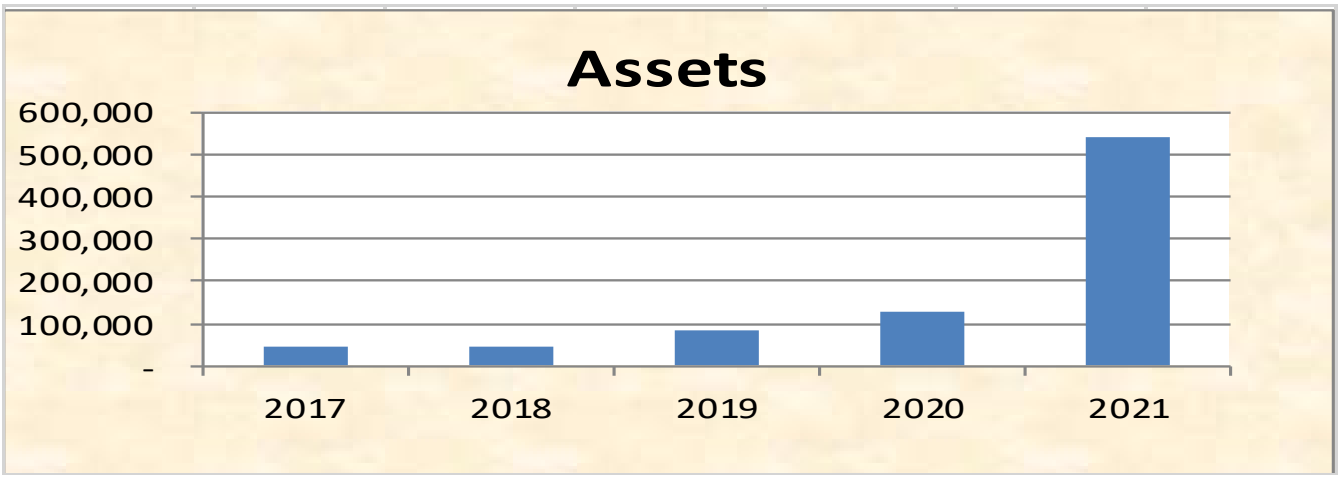


**LIABILITIES & EQUITY (% and in thousand Pesos)**

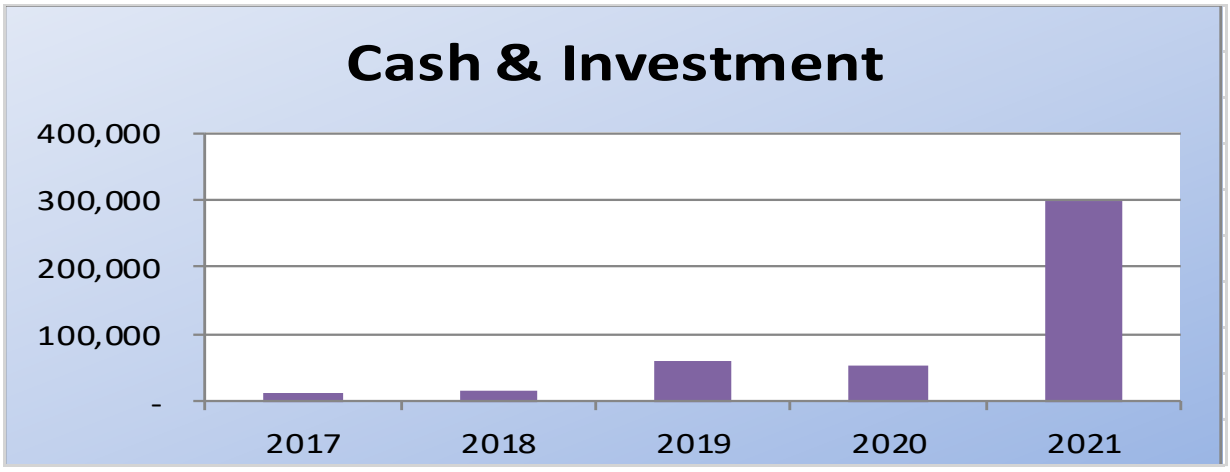
| | | |
|---|---|---|
| Deposit Liabilities | 53.72% | 289,799 |
| Other Liabilities | 16.30% | 88,170 |
| Bills Payable | 18.50% | 100,000 |
| Capital | 11.40% | 61,496 |
| | 100% | 539,445 |

Liquid asset is equal to 103% of total deposit liabilities which means that the Bank can service withdrawals anytime when the need arises. As shown above, capital account represents 11.40% of total resources.

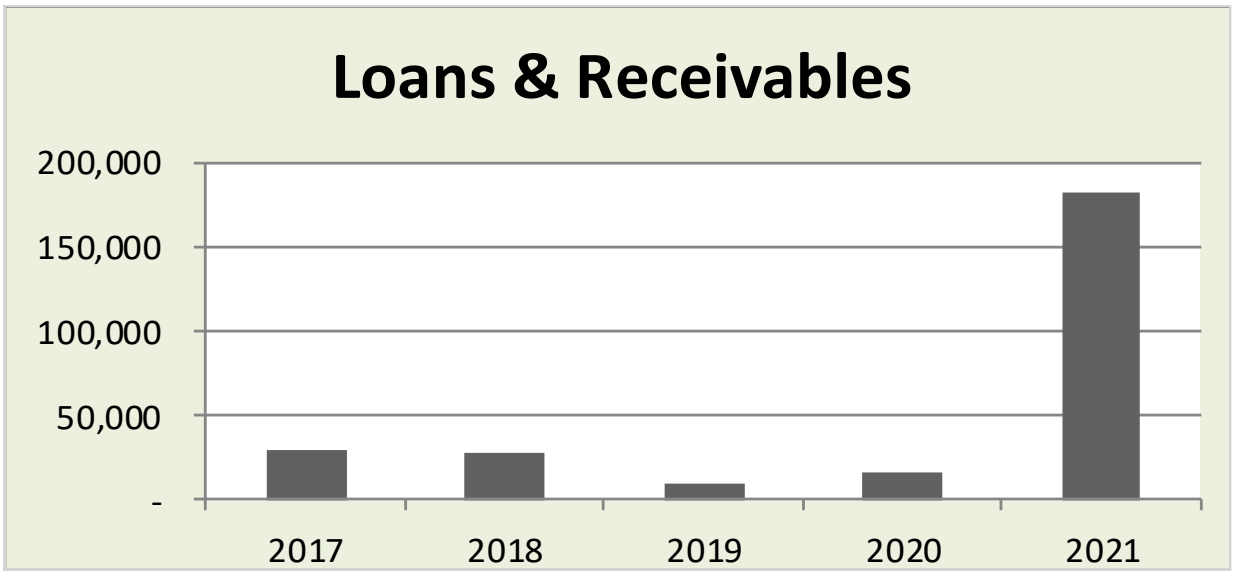
The Bank's financial performance for the last five (5) years is presented below:



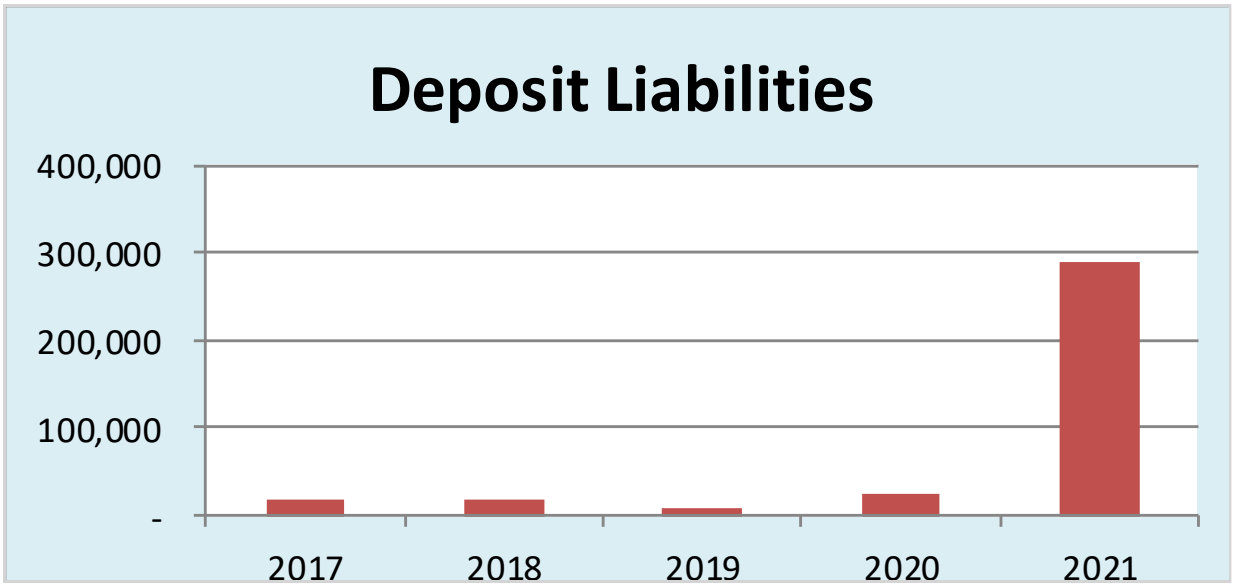

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **ASSETS**(in thousand pesos) | 48,278 | 47,406 | 83,424 | 126,013 | 539,445 |
| Growth Rate | 23% | -2% | 76% | 51% | 328% |



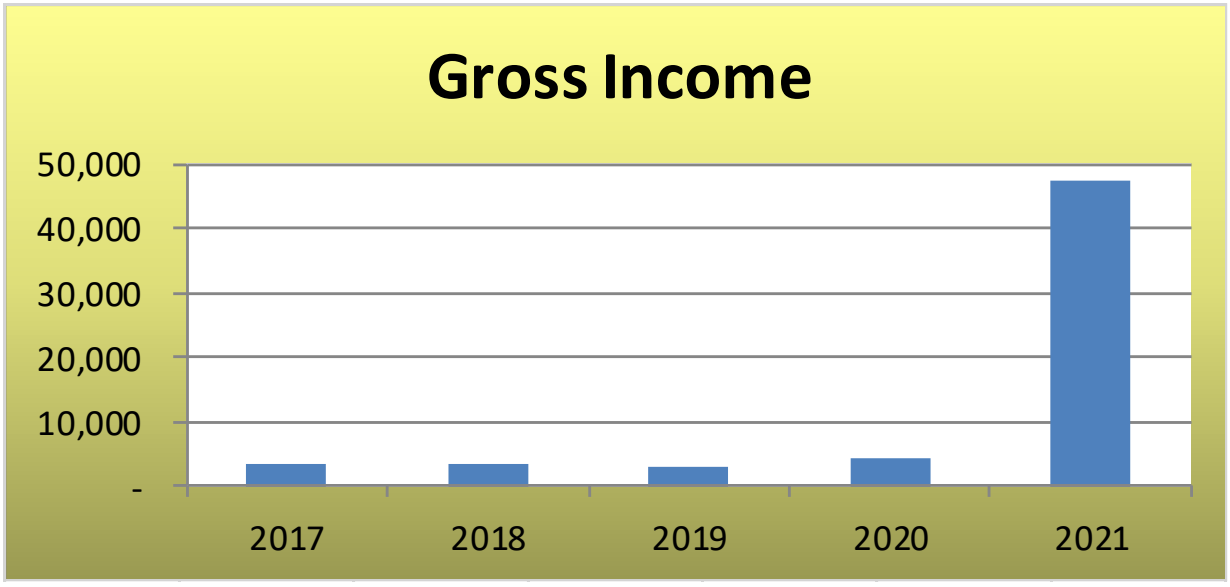

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **CASH & INVESTMENTS** (in thousand Pesos) | 11,873 | 14,743 | 58,381 | 53,763 | 299,822 |




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **LOANS & RECEIVABLES** (in thousand Pesos) | 29,946 | 26,791 | 9,826 | 16,475 | 182,277 |




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **DEPOSITS** (in thousand Pesos) | 17,842 | 16,937 | 8,778 | 24,309 | 289,779 |




| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Gross Income** (in thousand Pesos) | 3,406 | 3,520 | 2,746 | 4,269 | 47,408 |
| Growth Rate | -9% | -3% | -28% | 36% | 91% |

## CORPORATE GOVERNANCE

Welcome Bank is committed to adhere to good corporate governance principles of fairness, accountability and transparency in all its dealings, ensuring a high degree of integrity in the conduct of all its affairs and in achieving organizational efficiency.

The Board of Directors is primarily responsible for upholding the highest standards of corporate governance and is accountable to its shareholders for creating and delivering strong, sustainable financial performance and long term shareholder value and ensuring that the Bank is steadily run in a prudent and sound manner with honesty, integrity and professionalism.

The Board determines the goals and policies of the Bank geared towards promoting long-term growth, delivering short-term objectives and providing overall strategic direction.

The Board of Directors' functions of (a) defining the Bank's vision and mission; (b) formulating and implementing strategies, plans and operating procedures; and (c) defining the corporate culture and values through a well-crafted code of conduct and ethical standards to ensure that (1) its operations are carried out with a high degree of integrity; (2) protected from all kinds of risks – reputational risks, operational risks, legal risks, foreign exchange risks, interest rate risks, credit risks, etc.; and (3) its goals and targets are attained.

The role of the Chairman is to ensure the effective functioning of the Board, maintaining a relationship of trust with board members. He makes sure that a sound decision making process is in place by encouraging critical discussions, with views expressed and discussed and independent views given due respect and consideration. The Chairman is assisted by a Corporate Secretary who is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and Committees as well as the records of the corporation.

### Board and Senior Management

The Bank is a joint-venture between two investors – Welcome Capital Worldwide PTE. LTD and Flowtiger Ventures, Inc., the two major shareholders are the parties that elect and appoint board members and senior management. All elected and appointed board

of directors and officers, shall be reviewed and confirmed by the BSP, based on the fit and proper criteria of the regulations.

With the change in ownership structure of the Bank, the Articles of Incorporation and By-laws of the Bank has been amended on 19 August 2019 such that the Board of Directors of the Bank is composed of five (5) directors including one independent director vs. previously nine (9) director members. Out of total 5 directors, 3 directors were nominated by 60% stakeholder, Welcome Capital Worldwide PTE. LTD. whilst the remaining 2 directors nominated by 40% stakeholder, Flowtiger Ventures, Inc.

## Members of the Board of Directors

1. **Saeyoung Chang – Chairman of the Board** Since April 2004, he has worked for Welcome Creditline Corp. and was appointed as CEO of the company in May 2014. He has been also servicing as a director of Korea Consumer Finance Association since January 2015. He graduated from Law School of Korea University in February 1987 and obtained a master degree from University of Florida, U.S.A. in June 2002 on real estate and finance.

2. **Suk Sub Shim – President and CEO** From December 2015 to August 2019, he has served as President of Welcome Finance, Inc. Upon resignation from the same position, he was elected as President and CEO of Welcome Bank (Rural Bank), Inc. He graduated from Seoul National University on Economics & Business Administration in February 1985 and obtained a master degree from University of Washington in 1996. Since January 1985, he has work from various industries and with 14 years working experience in leasing and financing industry as Finance Manager in Korea Development Leasing Corp. He was the Country Manager for Medical Equipment Credit from 2001 to 2003 and De Lage Landen in Korea from 2004-2006. He also served as Treasurer of Renault Samsung Motors Co., Ltd. From 2003-2004

3. **Kyochan An – Director & Division I Head**– He is a graduate of Bachelor in Conservation Cultural Property from Yong-In University in 2004. From year 2007-2021 , he has worked for Welcome Financial Group and rose from the ranks from an Associate to Branch Manager, Loan Center Manager, Call Center Manager, General Manager, Senior Manager of Welcome Creditline Corp. and Welcome Savings Bank. He was also appointed as Director of Welcome Leasing Lao Co., Ltd. from 2018-2020. Started as a Division Head of Welcome Bank (Rural Bank), Inc. in September, 2021 prior to his election and appointment as

Director on September 30, 2021.

4. **Job Adrian Mesina Ambrosio – Director**, From June 2006 to May 2014, he serviced for PJS Law as a partner. He has been President and Managing Director of Flowtiger Ventures, Inc. since October 2013. He graduated from Ateneo de Manila University on Economics in 1994. He obtained a master degree from Ateneo de Manila College of Law in 1998.

5. **Edward Sembrano Relucio – Independent Director**, Since he was admitted to Philippines Bar in 2001, he has accumulated various experience working for PJS Law and Department of Transportation and Communications as a legal officer or legal consultant. He graduated from Ateneo de Manila College on Psychology in 1996 and obtained a master degree from Ateneo de Manila Law School in 2000.

## 2021 Attendance of the New Board members

| Directors | Attendance | % | Years as Director |
|---|---|---|---|
| Saeyoung Chang | 8 | 62% | 3 |
| Suk Sub Shim | 13 | 100% | 3 |
| Kyochan An | 2 | (elected & appointed Director on Sept. 30, 2021) | |
| Job Adrian M. Ambrosio | 13 | 100% | 3 |
| Edward S. Relucio | 11 | 83% | 3 |

## Selection Process for the Board and Senior Management

Given that the Bank is a joint-venture between two investors – Welcome Creditline Corporation and Flowtiger Ventures, Inc., the two major shareholders will be the party that recommends Board members and senior management. Upon recommendation by the two parties, the Compliance Team will, first of all, review whether each candidate for the position suits criteria of fit and proper standards for the Bank. If any deficiency with a candidate is found, the Compliance Team will advise the recommending party of the unfit point of the candidate and ask for recommendation of the replacement.

## Board-level & Management Committees

Composed of highly skilled, knowledgeable and experienced business professionals and leaders to steer the Bank's strategic direction, the Board established committees that provide in-depth focus on specific areas of board responsibility.

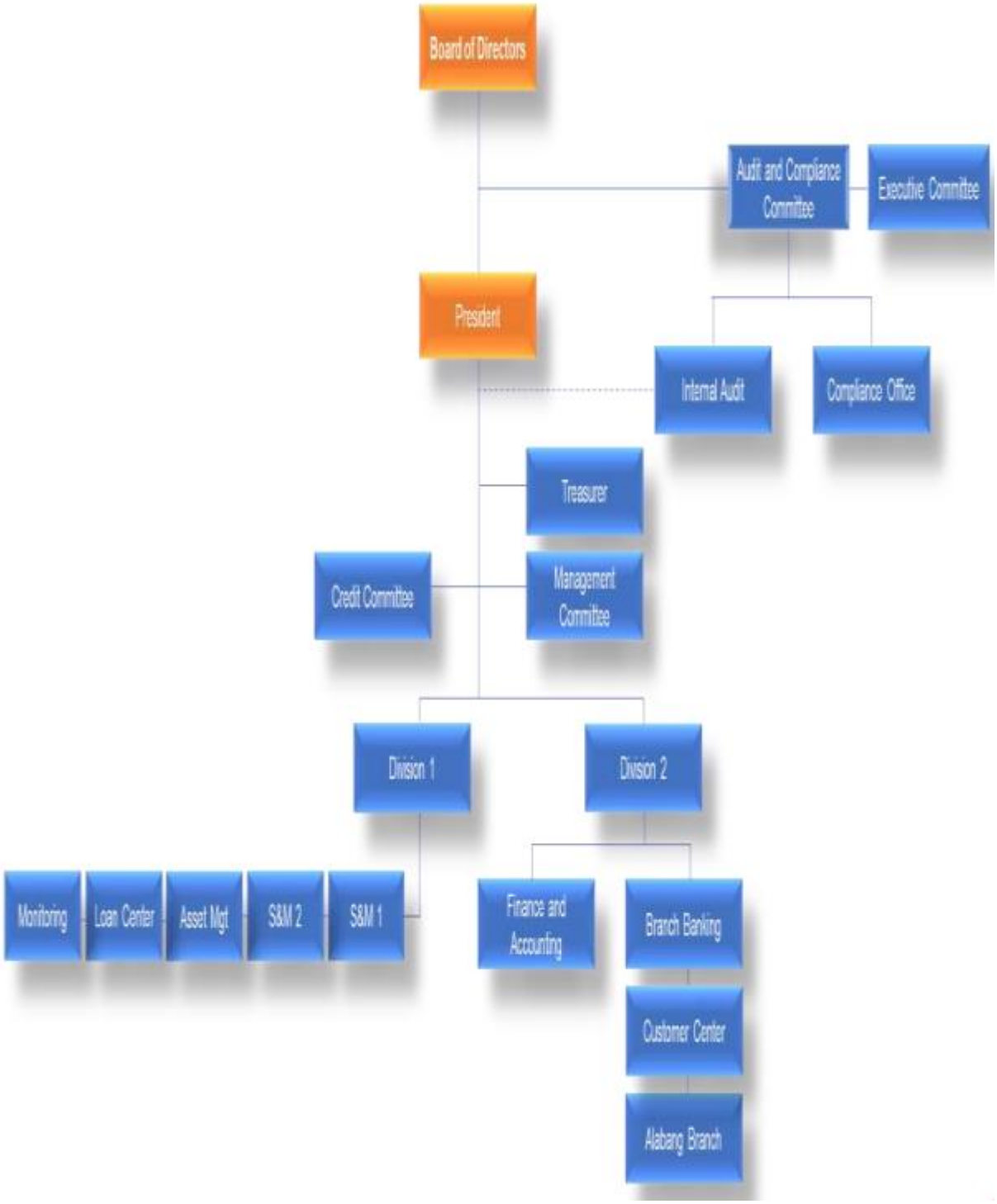
### Audit & Compliance Committee

The Audit & Compliance Committee is responsible for reviewing and approving for annual audit plan as well as for deliberating issues and resolutions observed in the process of audit activities. The overall issue items and recommendations by the Audit & Compliance Committee will be reported to the Board quarterly. The management is responsible for implementing action items recommended by the Audit & Compliance Committee to better manage and control corporate governance and to improve overall financial performance of the Bank. The Audit & Compliance Committee is composed of the following 3 members.

**Audit & Compliance Committee:**

| | |
|---|---|
| Edward S. Relucio-Independent Director | Chairman |
| Saeyoung Chang | Member |
| Job Adrian Ambrosio | Member |

## Organization and Structure



The Board of Directors is responsible in upholding the highest standards of corporate governance and is accountable to the Bank's shareholders for creating and delivering strong sustainable financial performance and long-term shareholder value. The Board determines the goals and policies of the Bank to promoting long term growth, delivering short-term objectives, and providing overall strategic direction within a framework of rewards, incentives and controls. The Board receives comprehensive reports covering all of principal risks; control issues of significance and regulatory reports from the Internal Audit and Compliance Office. In depth reports dealing with relevant specific issues are reported to the Board.

The Internal Audit, independent of any other functions, shall conduct periodic reviews on the effectiveness of risk management across the Bank and to disseminate its audit findings to relevant departments and management. The Internal Audit strengthens the Bank's internal controls by identifying key risks points in the overall internal control framework by systematically reports the issues which deserve management's attention and to make recommendations for improvement.

The Bank is fully aware that strict adherence to compliance requirements and high standards of integrity and ethical conduct is particularly important to its operations. The Compliance Office ensures that effective compliance policies and procedures are followed and the management takes appropriate corrective action when non-compliance is identified. The Compliance Office reports directly to the **Audit and Compliance Committee** and provides guidance and advice in the execution of compliance measures and activities integral to the operations of the Bank.

**Executive Committee** is appointed by the Board of Directors and the President and Chief Executive Officer is delegated the responsibility to oversee the day-to-day operations of the Bank, as well as manage and implement its business plan and strategies. The Executive Committee ensures that matters related to strategic direction and management receive close attention at the executive level. It also supports a delegated and coordinated decision-making approach.

The Executive Committee is tasked to ensure that the overall business operations of the Bank are well managed and compliant to various rules and regulations of the supervising regulatory body, Bangko Sentral ng Pilipinas (BSP) and other governing agencies. The appointed members are delegated to be jointly responsible for overseeing the day to day operations of the Bank as well as manage and implement its business plans and strategies. Three executive officers, the President and the two (2)

Division Heads who are at the helm of the Bank's operations composed the Executive Committee (EXCOM).

| | | |
|---|---|---|
| Suk Sub Shim | President | Chairman |
| Sung Ho Choi | Treasurer | Member |
| Kyochan An | Operations Division Head | Member |

**Credit Committee**

The main responsibilities of the Credit Committee is to monitor market risk, interest rate risk, credit risk, and liquidity risk and give guidelines to tackle with potential risks detected. Another function of the Credit Committee is to review and approve for high exposure loan transactions above 1 million Pesos while exposures of 1 million Pesos or less is delegated to management or credit team head for approval authority. The Credit Committee of the Bank is composed of the three (3) members.

**Management Committee**

Main functions of the Management Committee are to initiate, design, review, updates and revises all bank systems and operating procedures including all operating manuals for approval of Excom and confirmation of the Board. Also, the review and concur in all proposals regarding reports, form, system and methods from other sources. More importantly, the reporting and updates on strategic plans vs actual performance of each department. Management Committee composed of the different managers and team leads ensures that all Bank's action and efforts remain coordinated and customer-focused.

The MANCOMM provide integrity and direction to the Bank as a whole by fostering an organizational culture that is market-driven and customer centered, applying a participative management style at all levels, and building banking strategies that sustain high-levels of growth.

## Performance Assessment Program

To assess the performance of the management, the Bank will set out a few goal criteria by which such can be measured. In ordinary times, the Bank will consider the following items critical goals in the performance assessment.

- Volume of the loan disbursed for the year
- Delinquency rate (overdue 10 or more days) of the loan portfolio
- Deposit outstanding – average of each month-end for the year
- Operating profit before tax

At the beginning of each year, the Bank will set up the target for each goal items. Performance of the management will be assessed at the close of the year how much each of the goal has been achieved for the year. Based on the performance assessment outcome, the Bank will set up the targets of the following year as well.

## Orientation and Education Program

All elected and appointed director by Shareholders, to attend the Corporate Governance Orientation Program and AMLA Seminar as required by BSP prior to confirmation. In 2021, all five (5) directors that are elected/appointed during the Annual Shareholders' meeting on 27 April 2021, each of new director has attended the AMLA/MTPP and Corporate Governance Orientation Program seminars in November and December 2021 respectively and the corresponding Certificates of Participation in the education program were issued.

## Retirement and Succession Policy

Senior management of the Bank will be entitled to work for the company until the age of 65. In the event of early retirement before age of 65, the shareholder shall nominate a candidate replacing such a retired management and the appointment of the candidate should be approved by majority of voting in the shareholders' meeting. Except unplanned retirement of a senior management or a director, the Bank will establish succession plan from minimum 1 year before a senior management or a director reaches at retirement age.

The term of director is 1-year, and any of the legacy director can be re-appointed without any restriction to total years of renewed term as long as the shareholders' approves it by majority of voting shares. The independent director shall serve for a maximum term of nine (9) years and can no longer be an independent director but can be elected and serve as a director.

**Remuneration Policy**

The remuneration and other incentives policy of directors shall be submitted for approval of the shareholders. The Board shall ensure that the policy is consistent with the long-term interest of the Bank and does not encourage excessive risk-taking, and is not in conflict with the director's fiduciary responsibilities.

Executive directors: The financial performance and operational performance assessment for the previous year as well as remuneration range of the competitors in the market will be considered when determining and approving the total remuneration. President/CEO and Treasurer are executive directors of the Bank, who are dedicated to full-time service for the Bank.

Non-executive directors: The non-executive directors receive minimal fees/per diem for attendance in meetings of the Board and its Committees. They have no other compensation plan or arrangement with the Bank.

Senior manager positions or team leader positions: The remuneration of senior manager level positions will be determined every year based on mixture of consideration of performance evaluation, market average salary increase rate, and current compensation. HR Manager will work on the compensation package to be offered to each senior manager based on the said streamline and President/CEO will approve for the compensation that is recommended by HR Manager.

## Policy on Related Party Transactions

The Bank recognizes that Related Party Transactions (RPT) may give rise to conflict of interest, thus, the Board of Directors is tasked to review related party transactions of the Bank if the consequence of RPT brings any potential impact on any of the transacting party. They ensure that transaction with related parties and DOSRI are handled on a sound and prudent manner, with integrity and in compliance with

applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

An overarching Related Party Transactions Policy Guidelines was approved by the Board on October 8, 2020 and incorporated under the Revised Corporate Governance Manual. This will ensure the effective compliance with existing laws, rules and regulations of handling of RPTs; conducted on arms length basis and that no stakeholder is unduly disadvantaged.

Identification of RPTs is the responsibility of the business units concerned. Upon determination full disclosure and reporting of the Bank's RPT dealings based on board approved policies. The Board shall review and approve RPT dealings of at least P1.0 Million during the regular board meetings upon the approval and endorsement of Crecom/Execom. The Bank shall submit a report on material exposures to related parties and RPTs of non-bank financial subsidiaries and affiliates within twenty (20) calendar days from end of the reference quarter.

## Self-Assessment Functions

The Internal Audit & Compliance Team of the Bank, composed of minimum 3 personnel including Team Head. The Audit Team is responsible for setting up annual audit plan and for conducting the internal audit as planned. The main objective of the audit function is to investigate into if there is any work done in violation of internal policy and/or if there is anything non-compliant with government regulations. Detection of any fraud or malicious transaction is another role of audit team. The secondary objective of audit team is to envisage process improvement to bring efficiency or productivity enhancement, based on the observations earned in the course of audit.

The Bank's Compliance headed by the appointed and confirmed Chief Compliance Officer. The Compliance Office is tasked to review, monitor, and control such that the services and works are always in compliant with relevant regulations as well as internal policies. One of the main responsibilities of the team is to ensure various kinds of required reports be submitted to government authorities within designated timeline.

## Dividend policy

It is understood by shareholders that the Bank will not release any dividend until accumulated earnings level is substantial. It is to support for the Bank to have strong capital position and thereby protect deposit customers. Even when the Bank has accumulated substantial earnings, the releasable dividend will be limited to 50% of total earnings of the previous year. In case that the Bank plans to release dividend, it should be pre-discussed with shareholders and the decision on the dividend shall be approved in annual shareholders' meeting.

## Corporate Social Responsibility Initiatives

The Plastic Flamingo, also known as The Plaf is Welcome Bank (Rural Bank), Inc.'s avenue is taking its small step in enhancing its Corporate Social Responsibility.

The Plaf, is a socio-enterprise advocate that desires to lessen marine plastic pollution. Welcome Bank (Rural Bank), Inc. partnered with them hoping that by doing such an act, it could at least contribute by not adding up more plastic pollution to the ocean. Through employee engagement, Welcome Bank (Rural Bank), Inc. is creating environmental awareness within its operations but also investing in the implementation of ESG practices to ensure it has done its part in continuing its business with a more responsible approach.

## Affiliation

The Bank is a member in good standing of the Rural Bankers' Association of the Philippines (RBAP) and the Federation of Metro Manila Rural Bank Inc. (FMMRBI). It is also affiliated with the BAP Credit Bureau, Inc. (BAPCBI) and Credit Information Corporation (CIC) where negative information as well as credit outstanding with other financial institutions on prospective borrowers can be downloaded thru their website upon authorization.

## Management Information System

Complete, timely and accurate information are readily available to the Board of Directors that enable them to make a well-informed judgment. This is made possible

through Core Banking System Express O and WBIS Loan Management System which warrant that accurate information reaches the Board and Stakeholders in a timely manner.

## Statement of Compliance Policies

The established dynamic and responsive Compliance Risk Management System (CRMS) reinforces the stature of the Chief Compliance Officer with responsibilities of managing and monitoring compliance matters in all bank's business activities. The CRMS is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal and regulatory sanctions, material financial loss, loss to reputation that the Bank may suffer as a result of failure to comply with laws, related self-regulatory organization standards, code of conduct applicable to its activities. The compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risk arising from money laundering and terrorist financing activities. The CRM should be an integral part of the culture and risk governance framework of the Bank. In this respect it shall be the responsibility and shared accountability of all personnel, officers and the board of directors.

## Accountability and Audit

It is imperative to provide a balanced and comprehensive assessment of the Bank's performance, position and prospects on a periodic basis including the reportorial requirements of the regulatory bodies.

The Bank's internal control system is a process designed and effected by the Board of directors and senior management to provide reasonable assurance on the achievement of objectives through efficient and effective operations.

### Anti-Money Laundering & Terrorist Financing Prevention Program

Welcome Bank adopts a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) geared towards the promotion of high

ethical and professional standards and the prevention of the Bank being used, for money laundering and terrorism financing.

It is the policy of the Bank to conduct business in conformity with the highest ethical standards in order to protect the reputation and integrity of the banking system, to protect the Bank from becoming a vehicle or conduit for or a victim of financial crime, and to protect the interests of the Bank's stakeholders.

It is critical that the Bank should be always compliant with AML / TF regulation. The Chief Compliance Officer is responsible for monitoring if there is any point that is not compliant with the regulation. To keep all employees of the Bank aware of requirements under the concerned regulation, the Bank will conduct AML/TF refresh training annually. The key point with the anti-money laundering /terrorist finance is to proceed with all account opening and loan transactions on the condition of face-to-face validation of the customer identity at the commencement of the relationship with the customer. The bank adopted the AML Risk Score Sheet that aids the banking units in profiling their customer/clients during account opening/onboarding and application for loans. It is also important to know the purpose of any transaction with the Bank and to monitor if it is properly observed. Post conducting customer due diligence, any covered transaction and suspicious transaction shall be reported to Anti Money Laundering Commission (AMLC) within 5 working days as required by the law.

**Consumer Protection and Data Privacy**

The Board of Directors of the Bank approved for adoption the Consumer Protection Manual and Data Privacy Manual in accordance with the BSP regulations to provide for an enabling environment that protects the interest of financial consumers and institutionalize the responsibilities of all stakeholders and in accordance with the National Privacy Commission (NPC) policies that ensure protection of the rights of the subject from undue disclosure of personal data without consent.

**Framework:**

1. Disclosure and transparency – The Bank provides financial consumers with all material details of an instrument or service before a transaction is consummated.

2. Fair treatment – The Bank determines whether the product or service offered is suitable to the risk and financial profile of the consumer. The Bank also considers the selling practice of employees and possible indebtedness of the financial consumer.

3. Protection of client information – In accordance with the Data Privacy Act of 2012 (RA #10173), the Bank recognizes the importance of protecting the personal data of its customers, hence, information on a customer is not shared without his/her consent.

4. The Bank believes in promoting financial education and awareness, and ensuring that this is one of the components of the Bank's good governance.

5. Effective recourse complaint is seen as an opportunity of review process; identify root cause and work to improve processes thereby preventing its recurrence and providing a long term resolution of a particular issue.

The Board is responsible for ensuring that consumer protection practices are embedded in the Bank's business operations, adhering to highest service standards and embracing a culture of fair and responsible dealings in the course of conducting its businesses.

**CAPITAL STRUCTURE AND CAPITAL ADEQUACY**

As at December 31, 2021 and 2020, the Bank is in compliance with the capital adequacy ratio (CAR) prescribed by the BSP. The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

| | 2021 | 2020 |
|---|---|---|
| Tier 1 Capital | | |
| Common stock | P100,000,000 | P100,000,000 |
| Deficit | (12,868,795) | (1,014,128) |
| Comprehensive loss for the year | (25,635,372) | (11,854,667) |
| CET 1 | 61,495,833 | 87,131,205 |
| Less: Deduction from Tier 1 Capital Deferred tax asset | 13,443,195 | 5,943,225 |
| Total tier 1 capital | 48,052,638 | 81,187,980 |
| | | |
| Tier 2 Capital | | |

| | | |
|---|---|---|
| General loan loss provision | 1,680,738 | 335,874 |
| Total qualifying capital | 49,733,376 | 81,523,854 |
| Risk-weighted assets | 522,427,422 | 115,655,938 |
| • Total CET 1 capital expressed as percentage of total risk weighted assets | 11.78% | 73.26% |
| • Total regulatory capital expressed as percentage of total risk-weighted assets | 9.52% | 68.27% |
| • Total Tier 1 capital expressed as percentage of total risk-weighted assets | 9.20% | 68.50% |

The Bank's credit risk weighted assets as of December 31 are computed as follows:

**(a) 0% Risk Weight**

| | 2021 | 2020 |
|---|---|---|
| Cash on Hand | 632,013 | 1,187,116 |
| Due from BSP | 5,980,649 | 557,771 |
| Held-to-maturity financial assets | 969,942 | 1,173,986 |
| | 7,582,604 | 2,918,873 |
| | 0% | - |
| | - | - |

**(b) 50% Risk Weight**

| | 2021 | 2020 |
|---|---|---|
| Loans to individuals for housing purposes | 5,590,331 | 6,019,516 |
| | 50% | 50% |
| | **2,795,166** | **3,009,758** |

**(c) 100% Risk Weight**

| | 2021 | 2020 |
|---|---|---|
| Total Assets per Balance Sheet | 539,445,510 | 126,013,405 |
| General Loan Loss Provision per Balance Sheet | 1,680,738 | 335,874 |
| Less: Total Exposures excluding Other Assets | 13,172,935 | 8,938,389 |

| | | |
|---|---|---|
| Sub-Total | 527,953,313 | 117,410,890 |
| Less: Deferred tax assets | 13,443,195 | 5,943,225 |
| Net Other Assets | 514,510,118 | 111,467,665 |
| | 100% | 100% |
| | **514,510,118** | **111,467,665** |

There were no on-balance sheet accounts classified under 20% and 75% risk weights as of December 31, 2021 and 2020

The Bank's operational risk weighted assets as of December 31 are computed as follows:

| | **2021** | **2020** |
|---|---|---|
| Net Interest Income | | |
| Interest Income | 8,043,828 | 9,590,800 |
| Interest Expense | 947,473 | 1,024,018 |
| | **7,096,355** | **8,566,782** |
| Other non-interest income | | |
| Fees and Commissions Income | 150,885 | 334,334 |
| Net Profit/loss on Foreign Exchange | (3,466) | 0 |
| Other Income | 3,000,503 | 0 |
| | **3,147,923** | **334,334** |
| Gross Income | **3,414,759** | **2,967,039** |
| Capital Charge (12%) | 409,771 | 356,045 |
| Adjusted capital charge | 512,214 | 445,056 |
| Multiplied by factor 10 | 10 | 10 |
| Total Operational risk -Weighted Assets | **5,122,139** | **4,450,558** |

## Risk Management Framework

Risk Management is a fundamental process in understanding and controlling the risks inherent to the Bank's everyday management of its business. The Bank ensure that it has functional capacity to manage the inherent risks in its new and existing business products and services and operations.

The Bank's risk appetite as set forth by the Board took into account the business environment, regulatory landscape, and its long-term interests and ability to manage risk.

Responsibility for risk management rests at all level within the Bank, the Board of Directors and Senior Management down through the organization to each manager and business associate.

Everyone in the organization is expected to proactively manage the risks inherent in their respective areas of operation. It aims to embed a risk management culture that seeks to constantly identify, measure, control, monitor and evaluate risks within the Bank.

The Board of Directors is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Bank. It also has the responsibility for the development of risk strategies, principles, frameworks, policies and limits.

**Risk Appetite and Strategy**

The Bank's risk appetite as set forth by the Board took into account the business environment, regulatory landscape, and its long-term interests and ability to manage risk.

Considering that the loan market targeting at low-risk premium customers is already saturated and dominated by large commercial banks, the Bank's strategy is to undertake medium risk customers and thereby to contribute to expanding the population of financial inclusion. Hence, the risk appetite of the Bank will be more flexible and accommodate wider range of credit-profile customers than commercial banks. However, noting that the risk of delinquency with this category customers will be higher than premium customers, the Bank will be opt to charge relatively higher interest rate on the loan to medium risk customers with a view to covering the loan loss provision expected substantial. Once sufficient data on the co-relationship between credit risk and yield on the loan transaction is accumulated, the Bank will be able to more easily look at what interest charge will be appropriate to respective customers of different credit risk profiles.

## Bank-wide Risk Governance Structure and Risk Management Process

The Bank's Credit Scoring System (CSS) runs from 1 to 10 – 1 for lowest risk and 10 for highest risk. The loan applicants with a rating 8 to 10 will be declined unless level of comfort in terms of debt repayment capability on cash flow is proven acceptable.

The loan applicants with a rating 1 to 3 will be approved unless a significant weakness not captured in CSS is found. Aside from the CSS, the Bank uses the CIBI, FinScore and NFIS in credit risk assessment.

The maximum loanable amount to an applicant will be basically determined by Debt Burden Ratio (DBR) of the applicant, which represents the ratio of how much of money should be paid per month for repayment of all debts including the borrowings from other financial institutions out of monthly total disposable income. On consumer loans, the following table is an illustration of what are maximum DBRs allowed in several categories of net monthly income.

| NMI (in Php) | Maximum DBR allowed |
|---|---|
| NMI < 30K | 30% |
| 30K ≤ NMI < 50K | 35% |
| 50K ≤ NMI < 70K | 40% |
| 70K ≤ NMI < 100K | 45% |
| 100K ≤ NMI < 150K | 50% |
| 150K ≤ NMI < 200K | 55% |
| 200K ≤ NMI < 300K | 60% |
| 300K ≤ NMI < 500K | 65% |
| NMI ≥ 500K | 75% |

DBR (Debt Burden Ratio) = Total Monthly Installment payment / Net Monthly Income

All loan applications are analyzed and reviewed by Credit Team, and final approval by Credit Committee. However, for the purpose of reducing turn-around-time for the customers' convenience and also considering the managing the load appropriately, approval authority for small exposure transactions is delegated to executive or loan center team head depending upon exposure magnitude of a customer or a group of customers, as illustrated below, which was approved by Board of Directors.

| **Approval Authority** | **Approval limit** |
|---|---|
| Board of Directors | Excess P 10,000,000 |
| Credit Committee | Excess P 1,000,000 ~ P 10,000,000 |
| President | Excess P 400,000 ~ P 1,000,000 |
| Division Head | Excess P 100,000 ~ P 400,000 |
| Loan Center Lead | Under P 100,000 |

# PRODUCTS AND SERVICES

## Deposit Products

*The Bank* offers deposit products earning very competitive yields, from the regular savings deposits to the tax-free five year time deposits

| Welcome Savings | | |
|---|---|---|
| Minimum Initial Deposit | Waived | |
| Interest Earning Balance (ADB) | Waived | |
| Interest Rate | P 1,000,0000 up | 1.50% pa |
| | P 500,000 - P 999,999 | 1.75% pa |
| | P 1 - P 499,999 | 2.00% pa |

| Welcome Checking-Personal | |
|---|---|
| Minimum Initial and ADB Deposit Requirement | P 2,000 |
| Balance to Earn Interest (ADB) | P 5,000 |
| Interest Rate | .50% |
| **Welcome Checking-Corporate** | |
| Minimum Initial and ADB Deposit Requirement | P 5,000 |
| Balance to Earn Interest (ADB) | P 25,000 |
| Interest Rate | .50% |

| Welcome Time Deposit | | | |
|---|---|---|---|
| Minimum Placement | NA | | |
| Minimum Term | 30 days | | |
| Maximum Term | 4 years | | |
| Interest Rate | P5,000,000 above | 365 days and above | 4.25%pa |
| | | 181 days – 364 days | 3.75%pa |
| | | 30 days - 180 days | 2.75%pa |
| | P 1,000,000 - P 4,999,999 | 365 days and above | 4.00% pa |
| | | 181 days – 364 days | 3.50% pa |
| | | 30 days - 180 days | 2.50% pa |
| | P 500,00 - P 999,999 | 365 days and above | 3.50% pa |
| | | 181 days – 364 days | 3.00% pa |
| | | 30 days - 180 days | 2.125% pa |
| | P 1 - P 499,999 | 365 days and above | 3.00% pa |
| | | 181 days – 364 days | 2.75% pa |
| | | 30 days - 180 days | 2.00% pa |

| Welcome Premium Time Deposit | | |
|---|---|---|
| Minimum Placement | NA | |
| Term | 5 years - Tax Free | |
| Interest Rate | P 5,000,000 above | 5.00% |
| | P 500,000 – P 4,999,999 | 4.75% |
| | P 250,000 – P 499,999 | 4.50% |
| | P 1 - P 249,999 | 4.25% |

* Interest is subject to 20% withholding tax; Pre-termination of TDs subject to applicable withholding tax

** Time deposits are subject to pre-termination penalties as prescribed by BSP

***Time deposit certificates are subject to documentary stamps (P1.50/200 x term)

**** The above rates are standard as of 31 December 2021, and they are subject to change in line with market situation.

Deposits are insured by PDIC up to P500,000 per depositor.

www.welcomebank.com.ph

Direct No(02) 8282 8585 | Monday - Friday 9:00am to 4:00pm

Branches G02 I-Square Building, 15 Meralco Avenue, Brgy. San Antonio, Pasig City G/F Westgate Tower, 1708 Investment Drive , Madrigal Business Center, Alabang , Muntinlupa

Welcome Bank(Rural Bank), Inc. is regulated by the Bangko Sentrat ng Pilipinas (BSP). For any concerns, you may contact us at: (02) 8282-8585 and banking@welocmebank.com.ph. Contact BSP Financial Consumer Protection Department at : (02 8708-7087) and consumeraffairs@bsp.gov.ph

## LOAN PRODUCTS

The Bank has resumed its loan business culminating in October 2020. Upon the resumption of its new loan business in 2020 and continued in 2021, the features of the loan products of the Bank are summarized as below.

***Unsecured Loans***

| PERSONAL LOAN (PL) | |
|---|---|
| Loan Amount | P50,000 – P500,000 |
| Interest Rate | 2.26% -2.81 % Monthly EIR |
| • With minimum Gross Monthly Income (GMI) of:<br>  • *Non-BPO - PhP20,000 GMI*<br>  • *BPO - P20,000 GMI (Officer Level only)* | |
| • Must have an existing locally-issued credit card, active for 1 year and with a minimum credit limit of P30,000 | |

| PERSONAL HAPPY LOAN (PHL) | |
|---|---|
| Loan Amount | P50,000 – P300,000 |
| Interest Rate | 3.26%- 4.28% Monthly EIR |
| • With minimum Gross Monthly Income (GMI) of:<br>  • *Non-BPO - PhP20,000 GMI*<br>  • *BPO - P20,000 GMI (Officer Level only)* | |
| • Must have an existing locally-issued credit card, active for 6 months and with a minimum credit limit of P20,000 | |

| PREMIER PERSONAL LOAN (PPL) | |
|---|---|
| Loan Amount | P50,000 – P10,000,000 |
| Interest Rate | 2.21%-2.16% Monthly EIR |
| • Customer can be Salaried or Self-Employed Individuals | |
| • Must have an approved Condo Mortgage Loan with Welcome Bank; | |
| • Customer should still have excess income to cover PPL or the capacity to pay amortization on top any existing loans or expenses; | |
| • Within the Debt to Burden Ratio (DBR) policy | |
| • Income Requirement:<br>• *If Salaried – P30,000 GMI*<br>• *If Self-Employed – P40,000 GMI*<br>• *Combined Family Income – P30,000 GMI* | |

| SALARY LOAN (SL) | |
|---|---|
| Loan Amount | P20,000 – P200,000 |
| Interest Rate | 5.07%-3.78% Monthly EIR |
| • With minimum Gross Monthly Income (GMI) of:<br>• *Non-BPO - PhP20,000 GMI*<br>• *BPO - P20,000 GMI (Officer Level only)* | |
| • Must be a permanent/regular employee, or if probationary, must be within the same line of work or industry for the last 2 years | |

| BUSINESS LOAN (BL) | |
|---|---|
| Loan Amount | P50,000 – P1,000,000 |
| Interest Rate | 3.78%-5.07% Monthly EIR |
| • With minimum Net Monthly Income of PhP40,000 | |
| • Business must be 3 years in existence or 1 year practicing, if professional. | |
| • Must have an existing locally-issued credit card, active for 2 years and with a minimum credit limit of P70,000 *(For loan amounts >P500,000).* | |

| PREMIER BUSINESS LOAN (PBL) | |
|---|---|
| Loan Amount | Up to P1,000,000 *(New)*<br>Up to P2,000,000 *(Renewal)* |
| Interest Rate | 2.08% -2.13% Monthly EIR |
| • With minimum Gross Sales of P2,000,000; | |
| • Business must be 5 years in existence; | |
| • Must have an existing locally-issued credit card, with a minimum credit limit of P100,000 | |
| • Internal Credit Scoring System (CSS) of 3 or better. | |

## *Secured Loans*

| Qualifications: |
|---|
| • Must be a Filipino citizen, at least 21 years old but not more than 60 years old upon loan maturity; |
| • Clients should be gainfully employed or self-employed/professionals, with minimum Gross Monthly Income of PhP25,000; |
| • With verified landline or postpaid mobile number; |
| • Residence must be within WFP trade areas. |

**AUTO LOAN** *(2nd hand)*

**Car Year Model, Terms and Interest Rates (Monthly EIR):**

| Year Model | Down Payment | 12 months | 18 months | 24 months | 36 months | 48 months |
|---|---|---|---|---|---|---|
| 2020 – Latest | 20% FMV | 1.60% | 1.76% | 1.92% | 1.92% | 1.92% |
| 2015 – 2019 | 20% FMV | 1.60% | 1.76% | 1.92% | 1.92% | 1.92% |
| 2012 – 2014 | 30% FMV | 1.76% | 1.92% | 2.08% | 2.08% | 2.08% |
| 2010 – 2011 | 30% FMV | 2.08% | 2.08% | 2.08% | 2.08% | 2.40% |

**AUTO FINANCE LOAN**

**Car Year Model, Terms and Interest Rates (Monthly EIR):**

| Year Model | 12 months | 18 months | 24 months | 36 months |
|---|---|---|---|---|
| 2020– Latest | 2.24% | 2.24% | 2.24% | 2.24% |
| 2015– 2019 | 2.40% | 2.40% | 2.40% | 2.40% |
| 2012 – 2014 | 2.56% | 2.56% | 2.56% | 2.56% |
| 2010 – 2011 | 2.80% | 3.20% | 3.60% | 3.60% |

**CONDO MORTGAGE LOAN**

| CONDO MORTGAGE LOAN (CML) | |
|---|---|
| Loan Amount | P1,000,000 – P20,000,000 |
| Interest Rate | 2.21% 12 months , 2.23% 18 months, 2.21% 24 months, 2.16% 36 months |
| Repayment Period | Option 1 : 10 Years *(Fixed Term)*<br>Option 2 : 3 Years *(Interest-only Mortgage – renewable every 3 years)* |
| Loan Purpose | Equity Loan *(CCT under Borrower's Name)*<br>Acquisition of Titled Condo Unit<br>Take-out Loan *(Currently Mortgage with other bank)* |
| | |

## SAFETY DEPOSIT BOX

The Bank also offers deposit boxes in Alabang Branch and HO Customer Center for lea se to valued customers at very affordable prices.

## Directors & Officers

| NAME | DIRECTORSHIP POSITION | OFFICERSHIP POSITION |
|---|---|---|
| **Saeyoung Chang** | Chairman | |
| **Suk Sub Shim** | Member | President |
| **Kyochan An** | Member | Division I Head |
| **Job Adrian M. Ambrosio** | Member | |
| **Edward S. Relucio** | Independent Director | |
| **Sung Ho Choi** | N/A | Treasurer/Division II Head |

| | | |
|---|---|---|
| **Margarita T. Mellizas** | N/A | Internal Audit Head & Chief Compliance Officer |
| **Ma. Christine Fel P. De Vera** | N/A | Corporate Secretary |
| **Maria Aileen A. Alfaro** | N/A | Assistant Corporate Secretary |

## Stockholders and Stockholdings

| N A M E | NATIONALITY | PERCENT (%) OF HOLDINGS |
|---|---|---|
| **Welcome Capital Worldwide PTE.LTD.** | Korean | 60.0% |
| **Flowtiger Ventures, Inc.** | Filipino | 40.0% |
| **Saeyoung Chang** | Korean | 0.0% |
| **Suk Sub Shim** | Korean | 0.0% |
| **Kyochan An** | Korean | 0.0% |
| **Job Adrian M. Ambrosio** | Filipino | 0.0% |
| **Edward S. Relucio** | Filipino | 0.0% |
| **TOTAL** | | **100%** |

Related Party Structure

1. Welcome Finance, Inc.
2. Welcome Capital Worldwide Pte. Ltd.
3. Welcome F & D, Inc.
4. Flowtiger Ventures, Inc.
4. Saeyoung Chang
5. Suk Sub Shim
6. Kyochan An
7. Edward Relucio
8. Job Adrian Ambrosio

# AUDITED FINANCIAL STATEMENTS

## As of December 31, 2021

For BIR BCS/ Use Only: Item:

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

BIR Form No. **1702-RT**
January 2018(ENCS)
Page 1

# Annual Income Tax Return

Corporation, Partnership and Other Non-Individual
Taxpayer Subject Only to REGULAR Income Tax Rate
*Enter all required information in CAPITAL LETTERS. Mark applicable boxes with an "X".*
*Two copies MUST be filed with the BIR and one held by the taxpayer.*

1702-RT 01/18ENCS P1

| 1 For | 2 Year Ended (MM/20YY) | 3 Amended Return? | 4 Short Period Return | 5 Alphanumeric Tax Code (ATC) |
|---|---|---|---|---|
| (●) Calendar ( ) Fiscal | 12 - December 20 21 | ( ) Yes (●) No | ( ) Yes (●) No | IC 055–Minimum Corporate Income Tax (MCIT) (●) ICC0 - CORPORATION IN GENERAL - JAN 1, 2009 ( ) |

## Part I - Background Information

6 Tax Identification Number (TIN): 204 - 928 - 339 - 00000 | 7 RDO Code: 043

8 Registered Name *(Enter only 1 letter per box using CAPITAL LETTERS)*
WELCOME BANK (RURAL BANK) INC.

9 Registered Address *(Indicate complete address. If the registered address is different from the current address, go to the RDO to update registered address by using BIR Form No. 1905)*
3021-SQUARE BLDG., 15 MERALCO AVE. BRGY. SAN ANTONIO PASIG CITY

9A ZIP Code 1600

10 Date of Incorporation/Organization *(MM/DD/YYYY)*: 05/26/1999
11 Contact Number: 82828585

12 Email Address: wb-accounting@welcomebank.com.ph

13 Method of Deductions: (●) Itemized Deductions (Section 34 (A-J), NIRC) ( ) Optional Standard Deduction (OSD) - 40% of Gross Income (Section 34(L), NIRC as amended)

## Part II - Total Tax Payable

*(Do NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

| | |
|---|---|
| 14 Tax Due | 194,020 |
| 15 Less: Total Tax Credits/Payments | 287,195 |
| 16 Net Tax Payable (Overpayment) (Item 14 Less Item 15) | (93,175) |
| Add: Penalties | |
| 17 Surcharge | 0 |
| 18 Interest | 0 |
| 19 Compromise | 0 |
| 20 Total Penalties (Sum of Items 17 to 19) | 0 |
| 21 TOTAL AMOUNT PAYABLE (Overpayment) (Sum of Items 16 and 20) | (93,175) |

If Overpayment, mark one(1) box only *(Once the choice is made, the same is irrevocable)*
( ) To be refunded ( ) To be issued a Tax Credit Certificate (TCC) (●) To be carried over as a tax credit for next year/quarter

We declare under the penalties of perjury that this return, and all its attachments, have been made in good faith, verified by us, and to the best of our knowledge and belief, are true and correct, pursuant to the provisions of the National Internal Revenue Code, as amended, and the regulations issued under authority thereof. *(If signed by an Authorized Representative, indicate TIN and attach authorization letter)*

22 Number of Attachments: 000

| Signature over Printed Name of President/Principal Officer/Authorized Representative | Signature over Printed Name of Treasurer/Assistant Treasurer |
|---|---|
| Title of Signatory: | Title of Signatory: TREASURER TIN: 507606538000 |
| TIN: | |

## Part III - Details of Payment

| Particulars | Drawee Bank/ Agency | Number | Date(MM/DD/YYYY) | Amount |
|---|---|---|---|---|
| 23 Cash/Bank Debit Memo | | | | 0 |
| 24 Check | | | | 0 |
| 25 Tax Debit Memo | | | | 0 |
| 26 Others(Specify Below) | | | | |
| | | | | 0 |

Machine Validation/Revenue Official Receipt Details *(If not filed with an Authorized Agent Bank(AAB))*

*Stamp of Receiving Office/AAB and Date of Receipt (RO's Signature/Bank Teller's Initial)*

APR 26 2022
2 copies P&W/DO

| BIR Form No. 1702-RT January 2018(ENCS) Page 2 | Annual Income Tax Return Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate | 1702-RT 01/18ENCS P2 |
|---|---|---|

| Taxpayer Identification Number(TIN) | | | | Registered Name |
|---|---|---|---|---|
| 204 | 928 | 339 | 00000 | WELCOME BANK -RURAL BANK INC. |

| Part IV - Computation of Tax | (DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up) |
|---|---|
| 27 Sales/Revenues/Receipts/Fees | 38,843,844 |
| 28 Less:Sales Returns, Allowances and Discounts | 0 |
| 29 Net Sales/Revenues/Receipts/Fees *(Item 27 Less Item 28)* | 38,843,844 |
| 30 Less: Cost of Sales/Services | 36,182,748 |
| 31 Gross Income from Operation *(Item 29 less Item 30)* | 2,661,096 |
| 32 Add: Other Taxable Income Not Subjected to Final tax | 16,740,933 |
| 33 Total Taxable Income *(Sum of Items 31 and 32)* | 19,402,029 |
| Less: Deductions Allowable under Existing Law | |
| 34 Ordinary Allowable Itemized Deductions | 46,080,493 |
| 35 Special Allowable Itemized Deductions | 0 |
| 36 NOLCO *(Only for those taxable under Sec. 27(A to C); Sec. 28(A)(1)(A)(6)(b) of Tax code, as amended)* | 0 |
| 37 Total Deductions *(Sums of Items 34 to 36)* | 46,080,493 |
| OR *(In case taxable under Sec 27(A) & 28(A)(1))* | |
| 38 Optional Standard Deduction (OSD) *(40% of Item 33)* | 0 |
| 39 Net Taxable Income/(Loss) *If Itemized: Item 33 Less Item 37; If OSD: Item 33 Less Item 38)* | (26,678,464) |
| 40 Applicable Income Tax Rate | 25 % |
| 41 Income Tax Due other than Minimum Corporate Income Tax(MCIT) *(Item 39 x Item 40)* | 0 |
| 42 MCIT Due *(2% of Item 33)* | 194,020 |
| 43 Tax Due *(Normal Income Tax Due in Item 41 OR the MCIT Due in Item 42, whichever is higher)* | 194,020 |
| Less: Tax Credits/Payments(attach proof) | |
| 44 Prior Year's Excess Credits Other Than MCIT | 7,740 |
| 45 Income Tax Payment under MCIT from Previous Quarter/s | 279,455 |
| 46 Income Tax Payment under Regular/Normal Rate from Previous Quarter/s | 0 |
| 47 Excess MCIT Applied this Current Taxable Year | 0 |
| 48 Creditable Tax Withheld from Previous Quarter/s per BIR Form No. 2307 | 0 |
| 49 Creditable Tax Withheld per BIR Form No. 2307 for the 4th Quarter | 0 |
| 50 Foreign Tax Credits, if applicable | 0 |
| 51 Tax Paid in Return Previously Filed, if this is an Amended Return | 0 |
| 52 Special Tax Credits | 0 |
| Other Credits/Payments *(Specify)* | |
| 53 | 0 |
| 54 | 0 |
| 55 Total Tax Credits/Payments *(Sum of Items 44 to 54)* | 287,195 |
| 56 Net Tax Payable (Overpayment) *(Item 43 Less Item 55)* | (93,175) |
| **Part V - Tax Relief Availment** | |
| 57 Special Allowable Itemized Deductions *(Item 35 of Part IV x Applicable Income Tax Rate)* | 0 |
| 58 Add:Special Tax Credits | 0 |
| 59 Total Tax Relief Availment *(Sum of Items 57 & 58)* | 0 |

| BIR Form No. 1702-RT January 2018(ENCS) Page 3 | **Annual Income Tax Return** Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate | 1702-RT 01/18ENCS P3 |
|---|---|---|

| Taxpayer Identification Number(TIN) | | | | Registered Name |
|---|---|---|---|---|
| 204 | 928 | 339 | 00000 | WELCOME BANK -RURAL BANK INC. |

**Part VI - Schedules** *(DO NOT enter Centavos: 49 Centavos or Less drop down; 50 or more round up)*

**Schedule I - Ordinary Allowable Itemized Deductions** *(Attach additional sheet/s if necessary)*

| | |
|---|---|
| 1 Amortization | 0 |
| 2 Bad Debts | 0 |
| 3 Charitable and Other Contributions | 0 |
| 4 Depletion | 0 |
| 5 Depreciation | 6,952,909 |
| 6 Entertainment, Amusement and Recreation | 138,731 |
| 7 Fringe Benefits | 0 |
| 8 Interest | 0 |
| 9 Losses | 0 |
| 10 Pension Trusts | 0 |
| 11 Rental | 13,987,871 |
| 12 Research and Development | 0 |
| 13 Salaries, Wages and Allowances | 0 |
| 14 SSS, GSIS, Philhealth, HDMF and Other Contributions | 0 |
| 15 Taxes and Licenses | 5,963,921 |
| 16 Transportation and Travel | 118,172 |
| 17 Others(Deductions Subject to Withholding Tax and Other Expenses) *(Specify below; Add additional sheet(s), if necessary)* | |
| a Janitorial and Messengerial Services | 1,065,168 |
| b Professional Fees | 5,538,255 |
| c Security Services | 0 |
| d FEES AND COMMISSION EXPENSE | 3,153,510 |
| e POSTAGE, TELEPHONE, CABLES AND TELEGRAMS | 2,876,528 |
| f INFORMATION TECHNOLOGY | 1,629,377 |
| g POWER, LIGHT AND WATER | 1,243,120 |
| h ADVERTISING | 921,503 |
| i OTHERS | 2,491,628 |
| 18 Total Ordinary Allowable Itemized Deductions *(Sum of Items 1 to 17)* | 46,090,493 |

**Schedule II - Special Allowable Itemized Deductions** *(Attach additional sheet/s, if necessary)*

| | Description | Legal Basis | Amount |
|---|---|---|---|
| 1 | | | 0 |
| 2 | | | 0 |
| 3 | | | 0 |
| 4 | | | 0 |
| 5 | Total Special Allowable Itemized Deductions *(Sum of Items 1 to 4)* | | 0 |

BIR Form No. **1702-RT** January 2018(ENCS) Page 4

# Annual Income Tax Return

Corporation, Partnership and Other Non-Individual Taxpayer Subject Only to REGULAR Income Tax Rate

1702-RT 01/18ENCS P4

| Taxpayer Identification Number(TIN) | | | | Registered Name |
|---|---|---|---|---|
| 204 | 928 | 339 | 00000 | WELCOME BANK -RURAL BANK INC. |

## Schedule III - Computation of Net Operating Loss Carry Over (NOLCO)

| | | |
|---|---|---|
| 1 | Gross Income | 19,402,029 |
| 2 | Less: Ordinary Allowable Itemized Deductions | 46,080,493 |
| 3 | Net Operating Loss *(Item 1 Less Item 2) (To Schedule IIIA,Item 7A)* | (26,678,464) |

## Schedule IIIA - Computation of Available Net Operating Loss Carry Over (NOLCO)

*(DO NOT enter Centavos; 49 Centavos or Less drop down; 50 or more round up)*

| | Year Incurred | Net Operating Loss A) Amount | B) NOLCO Applied Previous Years |
|---|---|---|---|
| 4 | 2021 | 26,678,464 | 0 |
| 5 | 2020 | 17,084,910 | 0 |
| 6 | 2019 | 2,102,353 | 0 |
| 7 | | 0 | 0 |

Continuation of Schedule IIIA *(Item numbers continue from table above)*

| | C) NOLCO Expired | D) NOLCO Applied Current Year | E) Net Operating Loss (Unapplied) [ E = A Less (B + C + D)] |
|---|---|---|---|
| 4 | 0 | 0 | 26,678,464 |
| 5 | 0 | 0 | 17,084,910 |
| 6 | 0 | 0 | 2,102,353 |
| 7 | 0 | 0 | 0 |
| 8 | **Total NOLCO** *(Sum of Items 4D to 7D)* | 0 | |

## Schedule IV -Computation of Minimum corporate Income Tax(MCIT)

| | Year | A) Normal Income Tax as Adjusted | B) MCIT | C) Excess MCIT over Normal Income Tax |
|---|---|---|---|---|
| 1 | 2018 | 0 | 26,395 | 26,395 |
| 2 | | 0 | 0 | 0 |
| 3 | | 0 | 0 | 0 |

Continuation of Schedule IV *(Item numbers continue from table above)*

| | D) Excess MCIT Applied/Used in Previous Years | E) Expired Portion of Excess MCIT | F) Excess MCIT Applied this Current Taxable Year | G) Balance of Excess MCIT Allowable as Tax Credit for Succeeding Years [G = C Less (D + E + F)] |
|---|---|---|---|---|
| 1 | 0 | 26,395 | 0 | 0 |
| 2 | 0 | 0 | 0 | 0 |
| 3 | 0 | 0 | 0 | 0 |
| 4 | **Total Excess MCIT Applied** *(Sum of Items 1F to 3F)* | | 0 | |

## Schedule V - Reconciliation of Net Income per Books Against Taxable Income *(Attach additional sheet/s, if necessary)*

| | | |
|---|---|---|
| 1 | Net Income/(Loss) per Books | -25,635,372 |
| | Add: Non-deductible Expenses/Taxable Other Income | |
| 2 | NON-DEDUCTIBLE EXPENSES | 6,706,341 |
| 3 | | 0 |
| 4 | Total *(Sum of Items 1 to 3)* | -18,929,031 |
| | Less: A) Non-Taxable Income and Income Subjected to Final Tax | |
| 5 | TAX BENEFIT | 7,195,081 |
| 6 | INTEREST INCOME SUBJECT TO FINAL TAX | 554,352 |
| | B) Special Deductions | |
| 7 | | 0 |
| 8 | | 0 |
| 9 | Total *(Sum of Items 5 to 8)* | 7,749,433 |
| 10 | **Net taxable Income (Loss)** *(Item 4 Less Item 9)* | -26,678,464 |

Welcome
WELCOME FINANCE, INC.

Dept. Manager <wb-accounting@welcomebank.com.ph>

## Tax Return Receipt Confirmation

1 message

**ebirforms-noreply@bir.gov.ph** <ebirforms-noreply@bir.gov.ph> Thu, Apr 7, 2022 at 4:30 PM
To: wb-accounting@welcomebank.com.ph

This confirms receipt of your submission with the following details subject to validation by BIR:
File name: 204928339000-1702RTv2018C-122021.xml
Date received by BIR: 7 April 2022
Time received by BIR: 04:03 PM
Penalties may be imposed for any violation of the provisions of the NIRC and issuances thereof.

FOR RETURNS WITH PAYMENT
Please print this e-mail together with the RETURN and proceed to pay through the Authorized Agent Bank / Collection Agent / GCASH or use other payment options.

This is a system-generated email. Please do not reply.

Bureau of Internal Revenue

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For BIR Use Only | BCS/ Item:

Republic of the Philippines
Department of Finance
Bureau of Internal Revenue

BIR Form No. **1709**
December 2020 (ENCS)
Page 1

# INFORMATION RETURN ON TRANSACTIONS WITH RELATED PARTY

**(FOREIGN AND/OR DOMESTIC)**

*Enter all required information in CAPITAL LETTERS using BLACK ink. Mark applicable boxes with an "X". Two copies must be filed with the BIR and one held by the Tax Filer.*

1709 12/20ENCS P1

1 For the ☒ Calendar ☐ Fiscal | 2 Year Ended (MM/YYYY): 12/2021 | 3 Number of Sheet/s Attached:

## Part I – Background Information

4 Taxpayer Identification Number (TIN): 204 / 928 / 339 / 00000 | 5 RDO Code: 043

6 Taxpayer's Name (Last Name, First Name, Middle Name for Individual OR Registered Name for Non-Individual):
Welcome Bank (Rural Bank), Inc.

7 Registered Address (Indicate complete address. If branch, indicate the branch address. If the registered address is different from the current address, go to the RDO to update registered address by using BIR Form No. 1905):
Unit G02 I Square Building, 15 Meralco Ave., Brgy. San Antonio Pasig | 7A ZIP Code: 1600

8 Contact Number (Landline/Cellphone No.): 88424074 | 9 Email Address: pjs-sec@pjscorp.com

## Part II – Details of Related Parties

*(Fill out the table properly. Write N/A if not applicable and use additional sheet/s, if necessary)*

### A. Foreign Related Parties

| Name | Nature of Relationship | Country of Residence | Foreign TIN | Local TIN | With Permanent Establishment (PE) in the Philippines? (Yes/No) | TIN of PE |
|---|---|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |

### B. Domestic Related Parties

| Name | Nature of Relationship | TIN | Registered Address |
|---|---|---|---|
| Welcome Finance, Inc. | Affiliate | 008-746-067-000 | Unit 1804-1806, The Taipan Place F. Ortigas Jr. Rd. Ortigas Center Brgy. San Antonio Pasig City 1605 |

## Part III – Related Party Transactions

### A. Sale of Goods and Provisions of Services

| Name of Related Party | Description and Type of Transactions | Amount in Foreign Currency (If applicable) | Amount (in Php) | Were you granted treaty benefit in the source country? (Yes/No) | Income Tax Withheld by the Income Payor |
|---|---|---|---|---|---|
| Welcome Finance, Inc. | Outsourcing of Services | NA | P9,779,823 | NO | P195,596.46 |
| Welcome Finance, Inc. | Co-occupancy of Rental Space | NA | 2,968,432 | NO | 59,368.64 |

### B. Purchase of Goods and Services Except Those Provided by Key Management Personnel (KMP)

| Name of Related Party | Description and Type of Transactions | Amount in Foreign Currency (If applicable) | Amount (in Php) | Did the income recipient claim treaty benefit? (Yes/No) | Was a TTRA filed therefor? (Yes/No) | Income Tax Withheld by the Income Payor (If any) | Is the income payment attributable to PE? (Yes/No) |
|---|---|---|---|---|---|---|---|
| Welcome Finance, Inc. | Insourcing of Services | NA | P4,063,032 | NO | NO | P81,260.64 | NO |
| Welcome Finance, Inc. | Purchase of Solution Packages | NA | 1,095,526 | NO | NO | 10,955.26 | NO |
| Welcome Finance, Inc. | Purchase/take-out loans | NA | 9,885,420 | NO | NO | - | NO |

BIR Form No.
**1709**
December 2020 (ENCS)
Page 2

# INFORMATION RETURN ON TRANSACTIONS WITH RELATED PARTY
(FOREIGN AND/OR DOMESTIC)

1709 12/20ENCS P2

| TIN | Registered Name |
|---|---|
| 204 928 339 000 000 | Welcome Bank (Rural Bank), Inc. |

*Continuation of Part III*

**C. Loans Granted to or Non-Trade Receivable from (Related Parties)**

| Name of Related Party | Opening Balance | Loans Granted During the Taxable Period | Terms and Conditions | Outstanding Balance as of the End of the Taxable Period | Provisions for Doubtful Debts (If any)* | Bad Debts Expense Recognized During the Period (If any)** |
|---|---|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

**D. Loans Received from or Non-Trade Payable to (Related Parties)**

| Name of Related Party | Opening Balance | Loans Received During the Taxable Year | Terms and Conditions | Outstanding Balance as of the end of the Taxable Year |
|---|---|---|---|---|
| N/A | N/A | N/A | N/A | N/A |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

**E. Other Related Party Transactions Excluding Compensation Paid to KMP, Dividends and Branch Profit Remittances**

| Name of Related Party | Description and Type of Transactions | Amount in Foreign Currency (If applicable) | Amount (In Php) |
|---|---|---|---|
| N/A | N/A | N/A | N/A |
| | | | |
| | | | |
| | | | |
| | | | |

## Part IV – Additional Disclosure

A. Brief business overview of the ultimate and immediate parent/s of the taxpayer

N/A

B. Brief business overview/functional profile of the taxpayer

Welcome Bank (Rural Bank), Inc., is one of the Philippines subsidiaries of Korea's Welcome Financial Group. Welcome Bank, Inc. consumer loan market are Small Business Operator, Business Loan, Premier Business Loan, Salaried Customer: Salary Loan, Personal Loan, Personal Happy Loans, and Secured Loan: Condo-Mortgage Loan and Auto Loan. Welcome Bank, Inc competitive interest will be offered to depositors. Time deposit: target on rich customers with higher deposit interest offerings. Savings deposits: target general public customers with slightly higher interest. Demand deposits: service to mainly corporate customers.

C. Has there been any change in your functional profile during the taxable period? If yes, provide details. ☐ Yes ☒ No

D. Has there been any change in your ownership structure during the taxable period? If yes, provide details. ☐ Yes ☒ No

E. Did you undergo business restructuring during the taxable period or for the last five (5) years? ☐ Yes ☒ No
If yes, provide details

BIR Form No. **1709**
December 2020 (ENCS)
Page 3

# INFORMATION RETURN ON TRANSACTIONS WITH RELATED PARTY
(FOREIGN AND/OR DOMESTIC)

1709 12/20ENCS P3

| TIN | Registered Name |
|---|---|
| 204 928 339 0000 | Welcome Bank (Rural Bank), Inc. |

*Continuation of Part IV*

F. Have you prepared a Transfer Pricing Documentation (TPD) for the related party transactions as prescribed under Revenue Regulations No. 2-2013? The details of the TPD include, but are not limited to the following: Organizational Structure (b) Nature of the Business/Industry and Market Conditions; (c) Controlled Transactions; (d) Assumptions, Strategies, and Policies; (e) Cost Contribution Arrangement (CCA); (f) Comparability, Functional and Risk Analysis; (g) Selection of the Transfer Pricing Method (TPM); (h) Application of the TPM; (i) Background Documents; (j) Index to Documents. ☐ Yes ☒ No

G. Do you have pending application/s for relief with the BIR or with the tax authority of other country/ies? ☐ Yes ☒ No

If yes, provide details:

H. Do you have an Advance Pricing Agreement (APA) with your related parties? ☐ Yes ☒ No

I/We declare, under the penalties of perjury that this return has been made in good faith, and that, to the best of my/our knowledge and belief, all pieces of information provided in this return are correct, complete and true account of the related party transactions. Further, that required attachments to this return shall be made available during audit. Finally, I/we give my/our consent to the processing of my/our information as contemplated under Republic Act No. 10173, otherwise known as the Data Privacy Act of 2012, for legitimate and lawful purposes. (If authorized representative, please attach an authorization letter.)

SUNG HO CHOI

Signature over Printed Name of Taxpayer/Authorized Representative/Tax Agent (Indicate Title and TIN)

Tax Agent Accreditation Number/Atty.'s Roll Number (If applicable)

Date of Issue (MM/DD/YYYY) | Date of Expiry (MM/DD/YYYY)

*Stamp of receiving Office and Date of Receipt (RO's Signature)*

RECEIVED
APR 26 2022
Pagpatayad ng Buwis sa Bayan
Tatak ng Kabayanihan

# COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 9 0 6 5 6 5

Company Name

WELCOME BANK

(RURAL BANK), INC.

(FORMERLY SMART BANK

(RURAL BANK), INC.)

Principal Office ( No./Street/Barangay/City/Town)Province)

UNIT G02 I SQUARE BUILDING,

15 MERALCO AVE., BARANGAY

SAN ANTONIO, PASIG CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| pjs-sec@pjscorp.com | 8842-4074 | 0949-994-6305 |

| No. of Stockholders | Annual Meeting (Month/Day) | Fiscal Year (Month/Day) |
|---|---|---|
| 7 | Last Thursday of May | December 31 |

## CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Erminda F. Lozano | cco@welcomebank.com.ph | 8537-0210 | 0915-101-8848 |

## CONTACT PERSON'S ADDRESS

UNIT G02 I SQUARE BUILDING, 15 MERALCO AVE., BARANGAY SAN ANTONIO, PASIG CITY

*NOTE 1*: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiences shall not excuses the corporation from liability for its deficiencies.

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, 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 basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

**AMC & Associates**, the independent auditor appointed by the stockholders has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing and in its reports to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

**SAEYOUNG CHANG**
**CHAIRMAN**

**SUK SUB SHIM**
**PRESIDENT**

**SUNG HO CHOI**
**TREASURER**

Signed this 30th day of March 2022



Financial Statements

WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*

December 31, 2021 and 2020

AMC & ASSOCIATES

*Certified Public Accountants*

## REPORT OF INDEPENDENT AUDITORS

**The Board of Directors and Stockholders**
**Welcome Bank (Rural Bank), Inc.**
***(Formerly Smart Bank (Rural Bank), Inc.)***

Unit G02 I Square Building,
15 Meralco Ave., Barangay San Antonio,
Pasig City

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)*, (the Bank) which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

***Basis for Opinion***

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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 audits 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 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 PFRS, 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.

AMC & ASSOCIATES

*Certified Public Accountants*

***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 PSA 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

APR 26 2022

AMC & ASSOCIATES

*Certified Public Accountants*

**Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 29 and the Bureau of Internal Revenue (BIR) as disclosed in Note 30 to the financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of the management. The supplementary information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.




**AMC & ASSOCIATES**

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 8857523, Jan. 6, 2022, Makati City
BIR Accreditation No. 08-003584-1-2021
(valid until Dec. 19, 2024)
SEC Accreditation No. 89570 (Group A)
(valid until Dec. 31, 2025)
IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

March 30, 2022

AMC & ASSOCIATES

*Certified Public Accountants*

## SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS

**The Board of Directors and Stockholders**
**Welcome Bank (Rural Bank), Inc.**
***(Formerly Smart Bank (Rural Bank), Inc.)***
Unit G02 I Square Building,
15 Meralco Ave., Barangay San Antonio,
Pasig City

We have audited the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* for the year ended December 31, 2021, on which we have rendered the attached report dated March 30, 2022.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has two stockholders owning 100 or more shares each of the Bank's common stock, as disclosed in Note 20 of the financial statements.

**AMC & ASSOCIATES**

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 8857523, Jan. 6, 2022, Makati City
BIR Accreditation No. 08-003584-1-2021
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(valid until Dec. 31, 2025)
IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

March 30, 2022

WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020
*(Amounts in Philippine Peso)*

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| Cash *(Note 4)* | P 632,013 | P 1,187,116 |
| Due from Bangko Sentral ng Pilipinas *(Note 5)* | 5,980,649 | 557,771 |
| Due from other banks *(Note 6)* | 292,239,099 | 50,844,272 |
| Loans and other receivables *(Note 7)* | 182,277,182 | 16,475,474 |
| Financial assets at amortized cost *(Note 8)* | 969,942 | 1,173,986 |
| Bank premises, furniture, fixtures and equipment *(Note 9)* | 24,317,233 | 27,100,991 |
| Right-of-use asset *(Note 10)* | 1,688,541 | 6,093,430 |
| Intangible assets *(Note 11)* | 10,801,386 | 9,852,797 |
| Other assets *(Note 12)* | 20,539,465 | 12,727,568 |
| TOTAL ASSETS | P 539,445,510 | P 126,013,405 |
| **LIABILITIES AND EQUITY** | | |
| LIABILITIES | | |
| Deposit liabilities *(Note 14)* | P 289,779,331 | P 24,309,005 |
| Bills payable *(Note 15)* | 100,000,000 | - |
| Lease liabilities *(Note 10)* | 1,879,230 | 6,219,476 |
| Deposits for stock subscription *(Note 21)* | 74,939,894 | - |
| Accrued interest and other liabilities *(Note 16)* | 11,351,222 | 8,353,719 |
| Total Liabilities | 477,949,677 | 38,882,200 |
| EQUITY | | |
| Capital stock *(Note 20)* | 100,000,000 | 100,000,000 |
| Deficit | ( 38,504,167 ) | ( 12,868,795 ) |
| Total Equity | 61,495,833 | 87,131,205 |
| TOTAL LIABILITIES AND EQUITY | P 539,445,510 | P 126,013,405 |

*See Notes to Financial Statements.*

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WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
*(Amounts in Philippine Peso)*

| | 2021 | 2020 |
|---|---|---|
| **INTEREST INCOME** | | |
| Loans and other receivables *(Note 7)* | P 38,843,844 | P 1,078,539 |
| Bank deposits *(Note 6)* | 509,948 | 554,056 |
| Financial assets at amortized cost *(Note 8)* | 44,404 | 39,436 |
| | 39,398,196 | 1,672,031 |
| **INTEREST EXPENSE** | | |
| Deposit liabilities *(Note 14)* | 6,103,936 | 272,034 |
| Bills payable *(Note 15)* | 2,383,332 | - |
| Lease liabilities *(Note 10)* | 243,895 | 146,604 |
| | 8,731,163 | 418,638 |
| **NET INTEREST INCOME** | 30,667,033 | 1,253,393 |
| **PROVISION FOR CREDIT AND IMPAIRMENT LOSSES** *(Note 13)* | 6,530,827 | - |
| **NET INTEREST INCOME AFTER CREDIT AND IMPAIRMENT LOSSES** | 24,136,206 | 1,253,393 |
| **OTHER INCOME** | | |
| Rentals *(Note 22)* | 2,968,432 | 2,971,716 |
| Services charges and fees *(Note 7)* | 87,275 | 594 |
| Recovery on charged off asset | - | 15,000 |
| Others *(Note 18)* | 13,685,226 | 28,788 |
| | 16,740,933 | 3,016,098 |
| **OTHER EXPENSES** | | |
| Compensation and fringe benefits *(Note 17)* | 27,665,827 | 7,553,301 |
| Depreciation and amortization *(Notes 9, 10 and 11)* | 11,357,798 | 4,210,382 |
| Taxes and licenses *(Note 30)* | 5,963,921 | 682,493 |
| Other administrative expenses *(Note 18)* | 28,720,046 | 8,698,563 |
| | 73,707,592 | 21,144,739 |
| **LOSS BEFORE TAX** | ( 32,830,453 ) | ( 16,875,248 ) |
| **TAX BENEFIT** *(Note 19)* | ( 7,195,081 ) | ( 5,020,581 ) |
| **NET LOSS** | ( 25,635,372 ) | ( 11,854,667 ) |
| **OTHER COMPREHENSIVE INCOME** | - | - |
| **TOTAL COMPREHENSIVE LOSS** | ( P 25,635,372 ) | ( P 11,854,667 ) |

*See Notes to Financial Statements.*

APR 26 2022

WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
*(Amounts in Philippine Peso)*

| | Capital Stock | Deficit | Total |
|---|---|---|---|
| Balance at January 1, 2021 *(Note 20)* | P 100,000,000 | ( P 12,868,795 ) | P 87,131,205 |
| Total comprehensive loss for the year | - | ( 25,635,372 ) | ( 25,635,372 ) |
| Balance at December 31, 2021 *(Note 20)* | P 100,000,000 | ( P 38,504,167 ) | P 61,495,833 |
| Balance at January 1, 2020 *(Note 20)* | P 75,000,000 | ( P 1,014,128 ) | P 73,985,872 |
| Issuance of capital stock *(Note 20)* | 25,000,000 | - | 25,000,000 |
| Total comprehensive loss for the year | - | ( 11,854,667 ) | ( 11,854,667 ) |
| Balance at December 31, 2020 *(Note 20)* | P 100,000,000 | ( P 12,868,795 ) | P 87,131,205 |

*See Notes to Financial Statements.*

WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
*(Amounts in Philippine Peso)*

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before tax | ( ₱ 32,830,453 ) | ( ₱ 16,875,248 ) |
| Adjustments for: | | |
| Depreciation and amortization *(Notes 9, 10 and 11)* | 11,357,798 | 4,210,382 |
| Interest expense *(Note 14)* | 8,487,268 | 272,034 |
| Provision for credit and impairment losses *(Note 13)* | 6,530,827 | - |
| Accretion of interest on lease liabilities *(Note 10)* | 243,895 | 146,604 |
| Interest income *(Notes 6, 7 and 8)* | ( 39,398,196 ) | ( 1,672,031 ) |
| Operating loss before working capital changes | ( 45,608,861 ) | ( 13,918,259 ) |
| Increase in loans and other receivables | ( 169,006,846 ) | ( 6,676,598 ) |
| Increase in other assets | ( 505,946 ) | ( 6,429,661 ) |
| Increase in deposit liabilities | 265,470,326 | 15,330,768 |
| Increase in accrued interest and other liabilities | 334,593 | 7,682,039 |
| Cash from (used in) operations | 50,683,266 | ( 3,811,711 ) |
| Interest received on loans and other receivables | 35,526,092 | 1,058,193 |
| Interest paid on deposit liabilities | ( 4,234,549 ) | ( 259,914 ) |
| Cash paid for income taxes *(Note 19)* | ( 110,870 ) | ( 118,698 ) |
| Net Cash From (Used in) Operating Activities | 81,863,939 | ( 3,132,130 ) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest received on bank deposits | 513,124 | 593,009 |
| Proceeds from financial assets at amortized cost | 204,064 | 202,258 |
| Interest received on financial assets at amortized cost | 33,291 | 48,377 |
| Acquisitions of bank premises, furniture, fixtures and equipment *(Note 9)* | ( 2,497,193 ) | ( 16,509,731 ) |
| Additions to intangible assets *(Note 11)* | ( 2,620,567 ) | ( 8,761,935 ) |
| Net Cash Used in Investing Activities | ( 4,367,281 ) | ( 24,428,022 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from bills payable *(Note 15)* | 100,000,000 | - |
| Proceeds from deposits for stock subscription *(Note 21)* | 74,939,894 | - |
| Interest paid on lease liabilities | ( 243,895 ) | ( 146,604 ) |
| Interest paid on bills payable | ( 1,589,809 ) | - |
| Payments of lease liabilities *(Note 10)* | ( 4,340,246 ) | ( 1,709,324 ) |
| Proceeds from issuance of capital stock *(Note 20)* | - | 25,000,000 |
| Net Cash From Financing Activities | 168,765,944 | 23,144,072 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 246,262,602 | ( 4,416,080 ) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | |
| Cash *(Note 4)* | 1,187,116 | 141,730 |
| Due from Bangko Sentral ng Pilipinas *(Note 5)* | 557,771 | 609,798 |
| Due from other banks *(Note 6)* | 50,844,272 | 56,253,711 |
| | 52,589,159 | 57,005,239 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | |
| Cash *(Note 4)* | 632,013 | 1,187,116 |
| Due from Bangko Sentral ng Pilipinas *(Note 5)* | 5,980,649 | 557,771 |
| Due from other banks *(Note 6)* | 292,239,099 | 50,844,272 |
| | ₱ 298,851,761 | ₱ 52,589,159 |

*See Notes to Financial Statements.*

**WELCOME BANK (RURAL BANK), INC.**
***(FORMERLY SMART BANK (RURAL BANK), INC.)***
**NOTES TO FINANCIAL STATEMENTS**
**DECEMBER 31, 2021 AND 2020**
***(Amounts in Philippine Peso)***

## 1. GENERAL INFORMATION

*Corporate Information*

**Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* (the Bank) was registered with the Securities and Exchange Commission (SEC) on May 26, 1999 with Registration Number A199906565. The Bank is presently engaged in the business of extending credit to small farmers and businessmen and deserving small and medium scale industries or enterprises; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to the adoption and use of safe and sound banking practices as promulgated by the BSP.

In 2020, the Bank transferred its head office and main office branch to Unit G02 I Square Building, 15 Meralco Ave., Barangay San Antonio, Pasig City. The Bank's previous head office and main branch located at G/F Westgate Tower, Investment Drive, Madrigal Business Park, Alabang, Muntinlupa City is now a branch.

In a special meeting held on August 19, 2019, the Bank's Board of Directors approved the change in the corporate name from Smart Bank (Rural Bank), Inc. to Welcome Bank (Rural Bank), Inc. The BSP and SEC approved the said change in the Bank's corporate name on April 6, 2020 and June 25, 2020, respectively.

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the amendment of primary purpose of the Bank which is to carry on and engage in the business of extending credit to small farmers and businessmen and to deserving small and medium scale industries or enterprises; to provide financial products and services through digital platform or electronic channels; to have and exercise all authority and powers, to do and perform all acts, and to transact all businesses which may legally be had or done by rural banks organized under and in accordance with Republic Act No. 7353 (Rural Banks Act of 1992) as it exists or may be amended; to provide the corporation's subsidiary or affiliate with services such as sales and marketing support, customer acquisition acts, credit assessment and review, internal audit, compliance-related acts, and performing other business processes for said subsidiary or affiliate, to the extent that relevant governing laws allow to do; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). The amendment in the primary purpose is yet to be filed with the BSP.

*Approval of Financial Statements*

The financial statements of the Bank as at and for the year ended December 31, 2021 (including the comparative financial statements as at and for the year ended December 31, 2020) were authorized for issue by the Bank's Board of Directors (BOD) on March 30, 2022.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Basis of Preparation of Financial Statements*

a. *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy (BOA).

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

b. *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expense in a single statement of comprehensive income.

The Bank presents the third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

c. *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

*Adoption of New and Amended to PFRS*

*a. Effective in 2021 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase* 2. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are relevant to the Bank because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-2021 (the date by which the reform is expected to be implemented).

Discussed below are the relevant information arising from the Bank's adoption of these amendments.

- When the contractual terms of the Bank's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Bank remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

- For the Bank's fair value hedges of a non-contractually specified benchmark component of interest rate risk, on the transition to the alternative benchmark rate, if that risk rate is not a separately identifiable requirement at that date if the Bank reasonably expects the term specific interest rate component will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge. The 24-month period applies on a rate-by-rate basis.

The application of these amendments had no significant impact on the Bank's financial statements.

*b. Effective Subsequent to 2021 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have a significant impact on the Bank's financial statements.

i. *Amendments to PFRS 3, Reference to the Conceptual Framework* (effective from January 1, 2022). The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

ii. PAS 16 (Amendments), *Property, Plant and Equipment - Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

iii. *Amendments to PAS 37, Onerous Contracts – Costs of Fulfilling a Contract* (effective from January 1, 2022). The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

iv. *Annual Improvements to PFRSs 2018-2020 Cycle* (effective from January 1, 2022)

- *Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*. The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

- *Amendments to PFRS 9, Financial Instruments, Fees in the '10 percent' test for derecognition of financial liabilities*. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment.

- *Amendments to PAS 41, Agriculture, Taxation in fair value measurements*. The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

v. *Amendments to PAS 1, Classification of Liabilities as Current or Non-current* (effective from January 1, 2023). The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting year
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of liability not impact its classification

Management is currently assessing the impact of this new standard in its financial statements.

vi. *Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.* The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board ("IASB") completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Bank is currently assessing the impact of adopting the amendments.

vii. PFRS 17, Insurance Contracts (effective January 1, 2023). The new standard will eventually replace PFRS 4, Insurance Contracts. The Insurance Commission (IC), through its Circular Letter 2018-69, has deferred the implementation of PFRS 17 for the life insurance and non-life insurance industry. PFRS 17 will set out the principles for the recognition, measurement, presentation, and disclosure of insurance contracts within its scope.

This new standard requires a current measurement model where estimates are remeasured in each reporting period. Moreover, contracts are measured using the building blocks of:

- discounted probability-weighted cash flows;
- an explicit risk adjustment; and,
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period.

PFRS 17 further allows a choice between recognizing changes in discount rates either in the statement of income or directly in other comprehensive income. The choice is likely to reflect how insurers account for financial assets under PFRS 9.

In addition, the standard provides an optional, simplified premium allocation approach for the liability for the remaining coverage for short-duration contracts, which are often written by non-life insurers.

A modification of the general measurement model called the variable fee approach is also introduced by PFRS 17 for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

*Financial Instruments*

*a. Financial Assets*

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instruments. All financial assets are initially measured at fair value adjusted for transaction costs (where applicable). For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

*Classification and Measurement of Financial Assets*

The classification and measurement of financial assets are driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

*i. Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met (and are not designated as FVTPL):

- the asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets measured at amortized cost comprise Cash, Due from BSP, Due from other banks, Loans and other receivables and Investment securities at amortized cost (presented as Financial asset at amortized cost) in the statements of financial position.

For the purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks.

Cash, Due from BSP and Due from other banks includes cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash refers to the total amount of cash and other cash items received after the selected clearing cut-off time until the close of the regular banking hours. Due from BSP refers to the balance of the deposit account maintained with BSP. Due from other banks refers to the balances of deposit account maintained with other banks.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivables. These include financial assets such as direct loans to customers and sales contract receivables. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value is recognized in profit or loss. Increases in estimates of future cash receipts from such financial assets shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate rather than as an adjustment to the carrying amount of the financial asset at the date of the change in estimate.

Investments that are primarily composed of government and corporate bonds bearing fixed interest rates and defined maturity dates are also measured at amortized cost.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the profit or loss of statement of comprehensive income as part of Interest income.

ii. *Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)*

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,
- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Surplus reserve account is not reclassified to profit or loss but is reclassified directly to a Surplus free account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in profit or loss in the statement of comprehensive income as part of Interest income.

Any dividends earned on holding equity instruments are recognized in profit or loss when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and, the amount of the dividend can be measured reliably unless the dividends represent a recovery of a part of the cost of the investment.

As at December 31, 2021 and 2020, the Bank does not have financial assets designated at FVOCI.

iii. *Financial Assets at Fair Value Through Profit or Loss (FVTPL)*

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of the business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in the profit or loss as part of Interest income in the statements of comprehensive income. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is included in the net fair value gains (losses) on these assets presented as part of Interest income in the statements of comprehensive income.

As at December 31, 2021 and 2020, the Bank does not have financial assets designated at FVTPL.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will take effect only at the beginning of the next reporting period following the change in the business model.

b. *Impairment of Financial Assets*

*Expected Credit Loss Model*

PFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss' (ECL) model. The Bank considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. It also includes observable data that comes to the attention of the Bank about certain loss events, including, among others: the significant financial difficulty of the issuer or debtor; a breach of contracts, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank determines whether there has been a significant increase in credit risk for the financial asset since initial recognition by comparing the risk of a default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Bank considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

The Bank promptly recognizes and maintains an adequate allowance for credit losses at all times. It adopts the principles provided under the Enhanced Standards on Credit Risk Management in implementing sound and robust credit risk measurement methodologies that adequately consider ECL. In this respect, the ECL methodology is not considered as a separate and distinct process but as an important element of the entire credit risk management process.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* - It is an estimate of the likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* - It is an estimate of loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* - It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

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

If there is objective evidence that an impairment loss on loans or investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that has not been incurred) discounted at the financial asset's original effective interest rate. The Bank also considers impairment provisions based on the simplified approach within IFRS 9 using the expected credit losses (ECL). During this process, the probability of the non-payment of loans and receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the expected credit loss for the loans and receivables.

Credit exposures are classified into three stages using the following time horizons in measuring ECL:

| Stages of credit impairment | Characteristics | Time horizon in measuring ECL |
|---|---|---|
| Stage 1 | Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk | Twelve (12) months |
| Stage 2 | Credit exposures that are considered "under performing" or not yet non-performing but with significant increase in credit risk since initial recognition or with low credit risk | Lifetime |
| Stage 3 | Credit exposures with objective evidence of impairment, thus, considered as "non-performing, | Lifetime |

*Twelve (12)-Month ECL*

The Bank considers reasonable and supportable information, including forward-looking information that affects credit risk in estimating the 12-month ECL. The Bank exercises experienced credit judgment and considers both qualitative and quantitative information that may affect the assessment.

Zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit risk-weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the Bangko Sentral.

*Lifetime ECL*

The Bank evaluates the change in the risk of a default occurring over the expected life of the exposures in assessing whether these shall be moved to a lifetime ECL measure. Although collateral will be used to measure the loss given default, this should not be primarily used in measuring the risk of default or in transferring to different stages.

The Bank measures lifetime ECL of the following:

- exposures that have significantly increased their credit risk from origination (Stage 2); and
- non-performing exposures (Stage 3).

*Transfer from Stage 1 to Stage 2 – Assessment of significant increase in credit risk*

The Bank transfers credit exposures from Stage 1 to Stage 2 if there is a significant increase in credit risk from initial recognition. The Bank establishes well-defined criteria on what constitutes a significant increase in credit risk. The Bank considers a wide range of information, which includes among others, information on macroeconomic conditions, economic sector and the geographical region relevant to the borrower, and other factors that are borrower specific. The criteria on what constitutes a significant increase in credit risk shall consider, at a minimum, the list provided in PFRS 9.

The Bank classifies exposures to Stage 2 if the exposures have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. The Bank also classifies to exposures to Stage 2 if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Bangko Sentral applies the following indicators of a significant increase in credit risk in BSFIs noted to have weak credit loss methodologies:

- exposures considered especially mentioned under Section 143 of the MORB;
- exposures with missed payment for more than thirty (30) days; and
- exposures with risk ratings downgraded by at least two (2) grades (e.g., exposure with a risk rating of "3" on the origination date was downgraded to risk rating of "5" on the reporting date) for BSFIs with below fifteen (15)-risk rating grades, and three (3) grades for BSFIs with fifteen (15) or above risk rating grades.

*Transfer from Lifetime ECL to 12-month ECL*

The Bank transfers the exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Exposures should exhibit both the quantitative and qualitative indicators of a probable collection prior to their transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of an assessment of the borrower's financial capacity (e. g., improvement in counterparty's situation).

As a general rule, the full collection is probable when payments of interest and/or principal are received for at least six (6) months.

*Multiple Exposures to Specific Counterparties*

In measuring the ECL of multiple exposures to a single counterparty or multiple exposures to counterparties belonging to a group of related entities, the following shall apply:

i. *Exposures to non-retail counterparties.* The Bank measures ECL to multiple exposures to a non-retail counterparty measures ECL at the counterparty level. In particular, the Bank considers all exposures to a counterparty as subject to lifetime ECL when any of its material exposure is subjected to lifetime ECL;

ii. *Exposures to a retail counterparty*. The Bank with multiple exposures to a retail counterparty at the transaction level. In particular, the Bank may classify one transaction under Stage 1 and another transaction under Stage 3. However, the Bank is not precluded from taking into account the potential of cross-default, such that if one exposure is classified under Stage 3 all the other exposures may be classified under Stage 3; and

iii. *Exposures to counterparties belonging to a group of related entities*. The Bank with multiple exposures to counterparties that belong to the same group of related entities measures ECL at the counterparty level (per entity). The Bank likewise considers the status of the other counterparties belonging to the same group in determining the stage under which the exposures shall be classified.

*General and Specific Provisions for Loan Accounts*

The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Bank is not required to provide one percent (1%) General Provision on other credit exposures covered by PFRS 9 such as off-balance-sheet accounts and investments.

The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

*Basic Guidelines in Setting up Allowance for Credit Losses*

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

a. *Individually Assessed Credit Exposures*

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with an allowance for credit losses (ACL) based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

| No. of Days Unpaid/ with Missed Payment | Classification | Minimum ACL | Stage |
|---|---|---|---|
| 31 - 90 days | Substandard (underperforming) | 10% | 2 |
| 91 - 120 days | Substandard (non-performing) | 25% | 3 |
| 121 - 180 days | Doubtful | 50% | 3 |
| 181 days and over | Loss | 100% | 3 |

For secured loans and other credit exposures:

| No. of Days Unpaid/ with Missed Payment | Classification | Minimum ACL | Stage |
|---|---|---|---|
| 31 - 90 days* | Substandard (underperforming) | 10% | 2 |
| 91 - 180 days* | Substandard (non-performing) | 10% | 3 |
| 181 - 365 days | Substandard (non-performing) | 25% | 3 |
| Over a year-5years | Doubtful | 50% | 3 |
| Over 5 years | Loss | 100% | 3 |

**When there is the imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%*

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak, or without recoverable values, such loans and advances shall be treated as if these are unsecured.

Loans other credit exposures that exhibit the characteristics for classified accounts described under Appendix to Section 143 shall be provided with ACL as follows:

| Classification | Minimum ACL | Stage |
|---|---|---|
| Especially Mentioned | 5% | 2 |
| Substandard – Secured | 10% | 2 or 3 |
| Substandard – Unsecured | 25% | 2 or 3 |
| Doubtful | 50% | 3 |
| Loss | 100% | 3 |

b. *Collectively Assessed Loans and other Credit Accommodations*

Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures:

| No. of Days Unpaid/ with Missed Payment | Classification | Minimum ACL | Stage |
|---|---|---|---|
| 1 – 30 days | Especially Mentioned | 2% | 2 |
| 31 - 60 days 1st restructuring | Substandard | 25% | 2 or 3 |
| 61 – 90 days | Doubtful | 50% | 3 |
| 91 days and over/ 2nd restructuring | Loss | 100% | 3 |

For secured loans and other credit exposures:

| No. of Days Unpaid/with Missed Payment | Classification | ACL | | Stage |
|---|---|---|---|---|
| | | Other types of collateral | Secured by real estate | |
| 31 - 90 days* | Substandard (underperforming) | 10% | 10% | 2 |
| 91 - 120 days* | Substandard (non-performing) | 25% | 15% | 3 |
| 121 - 360 days | Doubtful | 50% | 25% | 3 |
| 361 days - 5years | Loss | 100% | 50% | 3 |
| Over 5 years | Loss | 100% | 100% | 3 |

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. If loans or investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimated future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is an uncollectible subject to BSP guidelines, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD, and the BSP, has been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other income in the statements of comprehensive income.

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

When possible, the Bank opted to restructure loans rather than to take possession of the collateral. This may involve extending payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and those future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment losses.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subject to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for debt instruments measured at FVOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in Revaluation reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

c. *Derecognition of Financial Assets*

i. *Modification of Loans*

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different from the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on the derecognition of financial assets in profit or loss.

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such an amount is included in the calculation of cash shortfalls from the existing financial asset that is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

ii. *Derecognition of Financial Assets Other than Through Modification*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. 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.

***d. Classification and Measurement of Financial Liabilities***

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Bank designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

Financial liabilities include deposit liabilities, bills payable, lease liabilities, deposits for stock subscription and accrued interest and other liabilities (excluding tax payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest expenses in the statements of comprehensive income.

Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost.

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of the consideration received) net of direct issue costs. Bills payable are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments; any difference between proceeds net of transaction costs and the redemption value is recognized in the statements of comprehensive income over the period of the borrowings.

Lease liabilities are fully discussed in *Leases* in the succeeding pages.

Deposits for stock subscription is defined as a subscription agreement which, among other things, states that the Bank is not contractually obliged to return the consideration received and that the Bank is obliged to deliver a fixed number of own shares of stock for a fixed amount of cash or property paid or to be paid by the contracting party.

Deposits for stock subscription is classified as part of equity for prudential reporting purposes when all of the following conditions are met:

- The deposits for stock subscription meets the definition of an equity instrument under Philippine Accounting Standards 32: Financial Instruments: Presentation such that the deposit for future stock subscription shall not be interest-bearing nor withdrawable by the subscriber.

- The Bank's existing authorized capital stock is already fully subscribed;

- The Bank's stockholders and board of directors have approved the proposed increase in authorized capital;

- The Bank filed an application for the amendment of its Articles of Incorporation for the increase in authorized capital with the appropriate department of the SES, BSP duly supported by complete documents as listed in Circular Letter No. 2009-042 dated May 14, 2009.

  "Application for the amendment of Articles of Incorporation for the increase in authorized capital, which has been returned due to insufficiency of supporting documents, shall not qualify for recognition as an equity instrument; and the submitted the amended copy of the documents still waiting for BSP approval"

- The Bank must have obtained the approval of the Monetary Board on transactions involving significant ownership of voting shares of stock by any person, natural or juridical, or by one group of persons as provided in Section 122, if applicable.

Deposits for stock subscription which does not meet the abovementioned conditions shall be classified as a liability.

Deposits for future stock subscription which meet the conditions to be recognized as equity shall form part of the Bank's qualifying capital for purposes of computing the risk-based capital adequacy ratio under Section 127.

Accrued interest and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost for maturities beyond one year, less settlement payments.

e. *Derecognition of Financial Liabilities*

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

f. *Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest income or Interest expense, Impairment losses, Gain on disposal of financial assets, Dividend income and Recoveries from accounts written-off (presented as part of Other income) in the Statement of comprehensive income.

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

g. *Offsetting Financial Instruments*

Financial assets and liabilities are set-offs and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

*Bank Premises, Furniture, Fixtures and Equipment*

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

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, the cost and their related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in profit or loss for the period.

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

| | |
|---|---|
| Building | 50 years |
| Building improvement | 5 years |
| Leasehold improvement | 5 years |
| Furniture, fixtures and equipment | 3 - 15 years |
| Transportation equipment | 3 - 5 years |
| Other office equipment | 3 - 5 years |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The residual values and estimated useful lives of bank premises, furniture, fixtures and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made with respect for those assets.

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

*Intangible Assets*

Intangible assets consist of software costs which are initially carried at cost. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.
Costs related to software purchased by the Bank for use in operations are amortized on a straight-line basis ranging from 5 to 10 years in 2021 and 2020. The amortization period and the amortization method for software cost are reviewed periodically to be consistent with the changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset. The amortization expense on software costs is recognized in the statement of income.

The carrying values of intangible assets with definite useful lives are reviewed for impairment when events or changes in circumstances indicate that 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 amounts.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

*Other Assets*

Other assets are assets controlled by the Bank as a result of past events. They 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. Other assets are recognized and measured at transaction costs or the amount of cash paid. Subsequently, these are charged to income as they are consumed in operations or expire with the passage of time.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

a. Security deposits

This pertains to the deposit to the rentals incurred. This is initially recorded as an asset and measured at the amount of cash paid. Subsequently, this is carried at amortized cost.

b. Stationeries and supplies

These represent expenses not yet incurred/used but already paid in cash. These are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

c. Petty cash fund

This pertains to cash on hand stated at face value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

d. Prepaid tax

Prepaid tax, which are claimed against income tax due, are carried over in the succeeding period for the same purpose.

***Provisions and Contingencies***

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

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

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

*Revenue and Expense Recognition*

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

a. *Interest Income and Expense*

Interest income and expense are recognized in the statement of comprehensive income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost 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 (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an 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.

For other income arises in the performance of Bank's services, the Bank follows a 5-step process to determine whether to recognize revenue:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as a performance obligation(s) are satisfied.

The Bank determines whether a contract with a customer exists by evaluating whether the following gating criteria are present:

i. the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
ii. each party's rights regarding the goods or services to be transferred or performed can be identified;
iii. the payment terms for the goods or services to be transferred or performed can be identified;
iv. the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
v. collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized either at a point in time or over-time, when (or as) the Bank satisfies performance obligations by transferring the promised goods or services to its customers.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

i. the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
ii. the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
iii. the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The Bank recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Bank satisfies a performance obligation before it receives the consideration, the Bank recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The Bank also earns service fees and commissions in various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

a. *Service Charges and Fees*

Fees and charges arising from providing transaction services are recognized on completion of the transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the criteria. Service charges and fees related to the acquisition and origination of the loan are amortized and recognized as income using the effective interest rate method over the term of the loan.

b. *Gains from Sale or Derecognition of Non-Financial Assets*

Income from the sale of non-financial assets is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure is determined as the difference between the fair value at foreclosure and the carrying amount of the loan. Gain on foreclosure is recognized when the risks and rewards of the property have been transferred to the Bank.

c. *Other Income*

Miscellaneous income such as rental income, inspection and filing fees is generally recognized when earned.

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Bank.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in the profit or loss on an accrual basis. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

*Impairment of Non-financial Assets*

The Bank assesses at each reporting date whether there is any indication that its non-financial assets, which include bank premises, furniture, fixtures and equipment, and right-of-use assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. Recoverable amount is the higher of an asset's or fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are 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 only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against income in the year in which it arises unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.
A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

*Leases*

a. *Bank as Lessee*

For any new contracts entered into, the Bank considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate[i], amounts expected to be payable under a residual value guarantee[ii], and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to the initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using practical expedients. Instead of recognizing a right-of-use asset, and a lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from bank premises, furniture, fixtures and equipment and other liabilities, respectively.

b. *Bank as Lessor*

Leases that do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Employee Benefits*

The Bank provides short-term benefits and post-employment benefits to employees through a defined benefit plan, as well as various defined contribution plans.

b. *Short-term Benefits*

Wages, salaries, and bonuses are recognized as an expense in the year in which the associated services are rendered by employees. Short-term accumulating compensated absences such as paid annual leave are recognized when services are rendered by employees that increase their entitlement to future compensated absences. Short-term non-accumulating compensated absences such as sick leave are recognized when the absences occur.

c. *Defined Benefit Plan*

The Bank has not yet established a formal post-employment plan nor accrues the estimated cost of post-employment benefits under a defined benefit plan required by the provisions of the Republic Act (R.A.) No. 7641, The Retirement Pay Law, in as much as such the estimated retirement benefits are not material to the financial statements. The Bank will recognize these benefits as an expense as they fall due.

d. *Defined Contribution Plan*

A defined-contribution plan under which the Bank pays fixed contributions to an independent entity such as Social Security System (SSS), Philhealth and Pag-ibig. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

*Income Taxes*

Tax expense recognized in the profit or loss comprises the sum of deferred tax and current tax recognized in other comprehensive income or directly in equity, if any.

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting periods.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that sufficient taxable profit will probably be available to allow all or part of the deferred tax asset to be utilized.

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. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes related to the same entity and the same taxation authority.

***Related Party Transactions and Relationship***

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

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

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

***Equity***

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

*Deficit* represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividends declared.

*Events After the End of the Reporting Period*

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

*Critical Management Judgments in Applying Accounting Policies*

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

a. *Application of ECL to Financial Assets at Amortized Cost*

The Bank uses a provision matrix to calculate ECL for all debt instruments carried at amortized costs. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since the origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Bank has established a policy to perform an assessment, at end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of a default occurring over the remaining life of the financial instrument.

b. *Evaluation of Business Model Applied in Managing Financial Instruments*

The Bank manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash flows, largely its core deposit funding arising from customer's withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at the entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of an individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relating to the Bank's investment strategies.

c. *Testing the Cash Flows Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents the time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as the modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of the money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, the standard emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how much sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

d. *Determination of Timing of Satisfaction of Performance Obligations*

The Bank determines that its revenue from services shall be recognized over time. In making its judgment, the Bank considers the timing of receipt and consumption of benefits provided by the Bank to the borrowers or customers.

In determining the best method of measuring the progress of the Bank's rendering of services, management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as a basis in recognizing revenues. Such measurements include results of performance completed to date, the time elapsed, and appraisals of milestones reached, or activities already performed.

e. *Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of the premises/offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank included the renewal period as part of the lease term due to the significance of these assets to its operations. Some leases have a short, non-cancellable lease period and there will be a significant negative effect on Bank's operation if a replacement is not readily available.

The lease term is reassessed if an option is exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

f. *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2 and relevant disclosures are presented in Note 22.

***Key Sources of Estimation Uncertainty***

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

a. *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 13.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 7 and 13, respectively.

b. *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

c. *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The fair values of the Bank's financial instruments are disclosed in Note 25.

d. *Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

e. *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Asset, and Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset, and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, and right-of-use asset are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use asset, and intangible assets are analyzed in Notes 9, 10 and 11, respectively. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*f. Determination of 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 assets to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2021 and 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets as at those dates is disclosed in Note 19.

*g. Valuation of Post-Employment Defined Benefit Obligation*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. As at December 31, 2021 and 2020, the Bank does not have a formal post-employment benefit plan nor accrues the estimated cost of post-employment benefits under a defined benefit plan required by the provisions of the Republic Act (R.A.) No. 7641, The Retirement Pay Law, in as much as such the estimated retirement benefits are not material to the financial statements. The Bank will recognize these benefits as an expense as they fall due.

## 4. CASH ON HAND

Cash on hand consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, amounting to P632,013 in 2021 and P1,187,116 in 2020.

## 5. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account consists of deposits maintained with BSP which amounted to P5,980,649 and P557,771 as at December 31, 2021 and 2020, respectively, in compliance with BSP's reserve requirements. Deposits with BSP do not earn interest. The Bank has satisfactorily complied with the reserve requirements of the BSP in both years.

Under Section 253 of the Manual of Regulation for Banks (MORB), a bank is required to maintain deposits with the BSP as among the allowable instruments for reserve cover. Section 254 of the MORB further provides that such a deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit shall be limited to settlement of obligations with the BSP and withdrawals to meet capital requirements.

## 6. DUE FROM OTHER BANKS

The details of the account are as follows:

| | 2021 | 2020 |
|---|---|---|
| Demand deposits | P 129,655,640 | P 43,391,325 |
| Savings deposits | 94,448,210 | 7,452,947 |
| Time deposits | 68,135,249 | - |
| | P 292,239,099 | P 50,844,272 |

Savings and demand deposits earn interest rates based on prevailing bank rates ranging from 0.05% to 1% in 2021 and 0.05% to 1.8% in 2020 while Time deposits earn interest rates based on prevailing bank rates ranging from 0.625% to 0.86% in 2021.

Total interest income earned amounted to P509,948 and P554,056 in 2021 and 2020, respectively, and is presented as Interest income on bank deposits in the statements of comprehensive income.

## 7. LOANS AND OTHER RECEIVABLES

Loans and other receivables consist of the following:

| | 2021 | 2020 |
|---|---|---|
| Loans and discounts: | | |
| Loans to individuals for housing purposes | P 7,110,023 | P 7,725,706 |
| Loans to individuals for consumption | 108,716,824 | 1,822,122 |
| Microenterprise loans | 38,074,031 | 1,000,000 |
| Small scale enterprise | 548,421 | 801,016 |
| Loans to individuals for other purposes | 28,192,342 | 4,531,474 |
| | 182,641,641 | 15,880,318 |
| Unamortized discount | ( 202,119) | ( 132,603) |
| | 182,439,522 | 15,747,715 |
| Other receivables: | | |
| Accounts receivable | 3,338,756 | 1,023,718 |
| Accrued interest receivable | 3,439,187 | 113,497 |
| | 189,217,465 | 16,884,930 |
| Allowance for impairment losses *(see Note 13)* | ( 6,940,283) | ( 409,456) |
| | P 182,277,182 | P 16,475,474 |

The credit terms of the Bank's loans and receivables range from one up to ten years.

Annual effective interest rates of loans and discounts range from 10% to 55.20% in 2021 and 2020. In 2021 and 2020, the annual effective interest rate of 55.20% relates mainly to unsecured loans granted with an outstanding loan balance of P724,524 and P1,000,000 as at December 31, 2021 and 2020, respectively. Total interest income earned from loans and other receivables amounted to P38,843,844 and P1,078,539 in 2021 and 2020, respectively, and is presented as Interest income on loans and other receivables in the statements of comprehensive income. In 2021 and 2020, Banks' service charges and fees on loans amounted to P87,275 and P594, respectively, and are presented under Other income in the statements of comprehensive income.

## 8. FINANCIAL ASSETS AT AMORTIZED COST

This account pertains to the following:

| | 2021 | 2020 |
|---|---|---|
| Agrarian Reform 10-year Bond: | | |
| Land Bank Bonds | P 990,643 | P 1,204,985 |
| Unamortized discount | ( 20,701) | ( 30,999) |
| | P 969,942 | P 1,173,986 |

The Agrarian Reform Bond from Land Bank Bonds bears annual interest of 5.786% and with a term of 10 years and will mature ranges from 2022 to 2028. Total interest income on these investment securities amounts to P44,404 and P39,436 in 2021 and 2020, respectively, and is presented as Interest income on Financial assets at amortized cost in the statements of comprehensive income.

Management assessed that no impairment loss on the Bank's Financial assets at amortized cost is required to be recognized in 2021 and 2020.

## 9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

In the Bank's financial statements, the gross carrying amounts and accumulated depreciation at the beginning and end of 2021 and 2020 are shown below:

| | Building and Improvements | Leasehold Improvements | Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|
| December 31, 2021 | | | | |
| Cost | P 7,760,934 | P 12,543,884 | P 15,049,213 | P 35,354,031 |
| Accumulated depreciation | ( 2,701,937) | ( 3,386,411) | ( 4,948,450) | ( 11,036,798) |
| Net carrying amount | P 5,058,997 | P 9,157,473 | P 10,100,763 | P 24,317,233 |
| December 31, 2020 | | | | |
| Cost | P 8,293,134 | P 12,247,532 | P 13,150,462 | P 33,691,128 |
| Accumulated depreciation | ( 3,027,970) | ( 862,816) | ( 2,699,351) | ( 6,590,137) |
| Net carrying amount | P 5,265,164 | P 11,384,716 | P 10,451,111 | P 27,100,991 |
| January 1, 2020 | | | | |
| Cost | P 7,993,134 | P 6,400,000 | P 2,973,455 | P 17,366,589 |
| Accumulated depreciation | ( 2,861,804) | - | ( 1,724,454) | ( 4,586,258) |
| Net carrying amount | P 5,131,330 | P 6,400,000 | P 1,249,001 | P 12,780,331 |

The reconciliation of the carrying amounts at the beginning and end of 2021 and 2020, of bank premises, furniture, fixtures and equipment is shown as follows:

| | Building and Improvements | Leasehold Improvements | Furniture, Fixtures and Equipment | Total |
|---|---|---|---|---|
| Balance at January 1, 2021, net of accumulated depreciation | P 5,265,164 | P 11,384,716 | P 10,451,111 | P 27,100,991 |
| Additions | - | - | 2,497,193 | 2,497,193 |
| Reclassification | - | 296,352 | ( 296,352) | - |
| Retirement of asset | ( 532,200) | - | ( 549,142) | ( 1,081,342) |
| Accumulated depreciation of retired asset | 532,200 | - | 549,142 | 1,081,342 |
| Depreciation charges for the year | ( 206,167) | ( 2,523,595) | ( 2,551,189) | ( 5,280,951) |
| Balance at December 31, 2021 net of accumulated depreciation | P 5,058,997 | P 9,157,473 | P 10,100,763 | P 24,317,233 |
| Balance at January 1, 2020, net of accumulated depreciation | P 5,131,330 | P 6,400,000 | P 1,249,001 | P 12,780,331 |
| Additions | 300,000 | 5,847,532 | 10,362,199 | 16,509,731 |
| Retirement of asset | - | - | ( 185,192) | ( 185,192) |
| Accumulated depreciation of retired asset | - | - | 185,192 | 185,192 |
| Depreciation charges for the year | ( 166,166) | ( 862,816) | ( 1,160,089) | ( 2,189,071) |
| Balance at December 31, 2020 net of accumulated depreciation | P 5,265,164 | P 11,384,716 | P 10,451,111 | P 27,100,991 |

As at December 31, 2021 and 2020, the Bank has fully depreciated Bank premises, furnitures, fixtures and equipment that are still in use with an original cost amounting to P1,294,652 and P1,851,674, respectively.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. In 2021, the Bank has not complied with this requirement while in 2020 the Bank satisfactorily complied with this requirement.

In 2021 and 2020, there were no bank premises, furniture, fixtures and equipment that are pledged as security for liabilities.

As at December 31, 2021 and 2020, management believes that there is no indication of impairment and that the carrying value of the bank premises, furniture, fixtures and equipment can be recovered through use in operations.

## 10. LEASES

The Bank leases a property for its operation. The Bank leases a certain office space with a remaining term of two years.

With the exception of short-term leases and leases of low-value underlying assets, the lease is reflected in the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

*Right-of-use Asset*

The Bank's right of use asset pertains to office space rental. The carrying amount of this right-of-use asset as at December 31, 2021 and 2020 and the movement during the year are shown below:

| | 2021 | 2020 |
|---|---|---|
| Cost | | |
| Balance at beginning of year | P 7,928,800 | P - |
| Additions | - | 7,928,800 |
| Balance at end of year | 7,928,800 | 7,928,800 |
| Accumulated amortization | | |
| Balance at beginning of year | 1,835,370 | - |
| Amortization for the year | 4,404,889 | 1,835,370 |
| Balance at end of year | 6,240,259 | 1,835,370 |
| Carrying amount at end of year | P 1,688,541 | P 6,093,430 |

***Lease Liabilities***

The lease liabilities are secured by the related underlying assets. A reconciliation of the carrying amounts of lease liabilities as at December 31 is shown below:

| | 2021 | 2020 |
|---|---|---|
| Operating lease liabilities before discounting | P 6,219,476 | P 7,928,800 |
| Discount using incremental borrowing rate | ( 243,895) | ( 146,604) |
| Operating lease liabilities | 5,975,581 | 7,782,196 |
| Repayment of lease liabilities for the year | ( 4,096,351) | ( 1,562,720) |
| | P 1,879,230 | P 6,219,476 |

As at December 31, 2021 and 2020, the Bank had committed to leases that had not yet commenced. The total future cash outflows for the lease that had not yet commenced amounted to P1,948,724 and P6,532,865, respectively.

The undiscounted maturity analysis of lease liabilities as at December 31, 2021 is as follows:

| | Within 1 year |
|---|---|
| Lease payment | P 1,948,724 |
| Finance charges | ( 69,494) |
| | P 1,879,230 |

The undiscounted maturity analysis of lease liabilities as at December 31, 2020 is as follows:

| | Within 1 year | 1 to 2 years | Total |
|---|---|---|---|
| Lease payment | P 4,584,141 | P 1,948,724 | P 6,532,865 |
| Finance charges | ( 243,895) | ( 69,494) | ( 313,389) |
| Net present values | P 4,340,246 | P 1,879,230 | P 6,219,476 |

***Lease Payment Not Recognized as Liabilities***

The Bank has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expense on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

In 2021 and 2020, the expenses relating to short-term leases amounted to P9,403,530 and P3,540,415, respectively, and are presented as Rental under Other administrative expenses in the statements of comprehensive income *(see Note 18)*.

On December 31, 2021 and 2020, the Bank is committed to short-term leases, and the total commitment at that date is P9,403,530 and P3,540,415, respectively *(see Note 22)*.

***Additional Profit and Loss and Cash Outflow Information***

The total cash outflow with respect to leases amounted to P4,584,141 in 2021 and P1,855,928 in 2020. Interest expense in relation to lease liabilities amounted to P243,895 and P146,604 and is presented as Interest expense on Lease liabilities in 2021 and 2020 statements of comprehensive income.

## 11. INTANGIBLE ASSETS

Intangible assets pertain to information technology software that consists of the loan management system, other software, and IT needs. The gross carrying amounts and accumulated amortization of this information technology software at the beginning and end of 2021 and 2020 are shown below:

| December 31 | 2021 | 2020 |
|---|---|---|
| Cost | P 12,960,542 | P 10,339,994 |
| Accumulated amortization | ( 2,159,156) | ( 487,197) |
| Net carrying amount | P 10,801,386 | P 9,852,797 |

A reconciliation of the carrying amounts at the beginning and end of 2021 and 2020, of information technology software is shown as follows:

| | 2021 | 2020 |
|---|---|---|
| Balance at January 1, net of accumulated amortization | P 9,852,797 | P 1,276,803 |
| Additions | 2,620,547 | 8,761,935 |
| Amortization charges for the year | ( 1,671,958) | ( 185,941) |
| Balance at December 31, net of accumulated amortization | P 10,801,386 | P 9,852,797 |

As at December 31, 2021 and 2020, management believes that there is no indication of impairment and that the carrying value of the intangible asset can be recovered through use in operations.

## 12. OTHER ASSETS

Other assets consist of the following as at December 31:

| | 2021 | 2020 |
|---|---|---|
| Deferred tax assets *(see Note 19)* | P 13,443,195 | P 5,943,225 |
| Security deposit | 3,522,366 | - |
| Advance rental | 1,784,762 | - |
| Stationery and supplies | 402,896 | 97,367 |
| Prepaid expenses | 185,921 | 6,639,236 |
| Prepaid tax | 93,175 | 7,740 |
| Petty cash fund | 45,000 | 40,000 |
| Others | 1,062,150 | - |
| | P 20,539,465 | P 12,727,568 |

Security deposit pertains to deposits made by the Bank related to various lease agreements. This will be refunded at the end of the lease agreement after all the valid claims have been cleared.

Advance rental pertains to advance payment of rentals on various lease agreements which will be applied over the lease term.

Prepaid expenses pertain to prepaid insurances which are expected to be amortized within 12 months after the end of the financial reporting period.

Prepaid tax relates to creditable withholding tax, which is claimed against income tax due, are carried over in the succeeding period for the same purpose.

Others include construction bonds, electricity and water security deposit, refundable deposit, and installation fee.

## 13. ALLOWANCE FOR IMPAIRMENT AND CREDIT LOSSES

The changes in the allowance for impairment and credit losses of loans and receivables follow:

| | 2021 | 2020 |
|---|---|---|
| Balance at beginning of year | P 409,456 | P 409,456 |
| Provision for the year | 6,530,827 | - |
| Balance at end of year | P 6,940,283 | P 409,456 |

Per BSP regulations, the Bank shall look beyond the past due/missed amortizations in classifying exposures and in providing an allowance for credit losses. On the other hand, the Bank with credit operations that may not economically justify the adoption of simple loan loss estimation methodology that is compliant with PFRS 9 shall, at a minimum, be subject to the regulatory guidelines in setting up an allowance for credit losses prescribed under the Appendix 18 of the MORB.

An analysis of changes in the corresponding ECL allowances of loans as at December 31, 2021 and 2020 follows:

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at January 1, 2021 under PFRS 9 | P 335,874 | P - | P 73,582 | P 409,456 |
| Provision for (recovery) of credit losses | 6,530,827 | - | - | 6,530,827 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | ( 529,106) | 529,106 | - | - |
| Transfer to Stage 3 | ( 4,656,857) | - | 4,656,857 | - |
| Amounts written-off | - | - | - | - |
| ECL allowance as at December 31, 2021 under PFRS 9 | P 1,680,738 | P 529,106 | P 4,730,439 | P 6,940,283 |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| ECL allowance as at January 1, 2021 under PFRS 9 | P 335,874 | P - | P 73,582 | P 409,456 |
| Provision for (recovery) of credit losses | - | - | - | - |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Amounts written-off | - | - | - | - |
| ECL allowance as at December 31, 2021 under PFRS 9 | P 355,874 | P - | P 73,582 | P 409,456 |

With the foregoing level of allowance for impairment and credit losses, management believes that the Bank has sufficient allowance to take care of any losses that the Bank may incur from the non-collection or non-realization of its receivables and other risks assets.

## 14. DEPOSIT LIABILITIES

This account consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Demand | P 381,371 | P - |
| Savings | 96,509,635 | 5,437,533 |
| Time | 192,888,325 | 18,871,472 |
| | P 289,779,331 | P 24,309,005 |

**The demand and savings deposits have annual effective interest ranging from 1% to 2% in 2021 and 0.75% to 4.75% in 2020, while time deposits have annual interest ranging from 2% to 5.5% in 2021 and 2.875% to 5% in 2020.** Interest expense on deposit liabilities amounted to P6,103,936 in 2021 and P272,034 in 2020 and is presented as Interest expense on Deposit liabilities in the statements of comprehensive income.

In 2016, the BSP, amended the provisions of Manual of Rules and Regulations for Banks Section X253.1 on reserves against deposits and deposit substitute liabilities through the BSP Circular No. 832, *Increase in Reserve Requirements*. As a result, required reserves against deposits and deposit substitute liabilities shall be 5% for demand and 3% for savings and time deposits. On March 31, 2020, the BSP issued Circular No. 1082, *Reduction in Reserve Requirements*, reducing the required reserves against deposit liabilities to 3% for demand, savings, and time deposits effective reserve week April 3, 2020. On July 27, 2020, the BSP issued Circular No. 1092, *Reduction in Reserve Requirements*, reducing 100 basis points in the required reserves against deposit liabilities to 2% for demand, savings, and time deposits effective reserve week July 31, 2020. Available reserves reported to the BSP as at December 31, 2021 and 2020 consist of Due from BSP amounted to P5,980,649 and P557,771, respectively (*see Note 5*). As at December 31, 2021 and 2020, the Bank is in compliance with the aforementioned BSP regulation.

The Bank has no deposit liabilities from DOSRI as at December 31, 2021 and 2020.

## 15. BILLS PAYABLE

This account consists of bills payable to KEB Hana Bank amounting to P100,000,000 as at December 31, 2021 with an annual effective interest of 3.1839% and a term of two years. No collaterals were issued for the said bills payable.

The interest paid on bills payable amounted to P2,383,332, and is presented as Interest expense on bills payable in the statements of comprehensive income.

## 16. ACCRUED INTEREST AND OTHER LIABILITIES

The breakdown of this account follows:

| | 2021 | 2020 |
|---|---|---|
| Accrued other expenses | P 5,464,719 | P 328,734 |
| Accrued interest expense | 2,402,997 | 66,193 |
| Accounts payable | 1,597,249 | 6,363,384 |
| Accrued gross receipts tax payable | 1,093,872 | - |
| Withholding taxes payable | 561,703 | 1,477,960 |
| SSS, PHIC and Pag-IBIG contributions payable | 198,679 | 75,359 |
| Others | 32,003 | 42,089 |
| | P 11,351,222 | P 8,353,719 |

Accrued other expenses include accruals for professional fees and incurred expenses. These are expected to be settled within one to three months after the end of each financial reporting period.

Accounts payable includes payable to a former officer of the Bank representing collections of the take-out of loans which is expected to be settled within one year.

Accrued gross receipts tax payable pertains to the accrual of gross receipts tax payable to BIR which are remitted at an average term of 15 days after the end of the financial reporting period.

Withholding tax payable pertains to statutory payables to BIR which are remitted at an average term of 15 days after the end of the financial reporting period.

## 17. COMPENSATION AND FRINGE BENEFITS

Expenses recognized for compensation and fringe benefits are presented below:

| | 2021 | 2020 |
|---|---|---|
| Salaries and wages | P 19,148,119 | P 5,382,424 |
| Other benefits | 7,277,811 | 1,923,594 |
| Social security costs | 1,161,897 | 247,283 |
| Directors' compensation | 78,000 | - |
| | P 27,665,827 | P 7,553,301 |

*Retirement Benefit Obligation*

As at December 31, 2021, the Bank has not yet established a formal post-employment plan and was not able to obtain an actuarial valuation on its retirement benefit obligation as of the year ended. The management, however, believes that such retirement benefit obligations and related expenses in 2021 and 2020 are not material to the financial statements as the Bank has less than ten regular employees with more than five years in service as at December 31, 2021 and 2020.

## 18. OTHER ADMINISTRATIVE EXPENSES AND INCOME

*Other Administrative Expenses*

The composition of this account is shown below:

| | 2021 | 2020 |
|---|---|---|
| Rental *(see Note 22)* | P 9,403,530 | P 3,540,415 |
| Management and professional fees *(see Note 21)* | 5,538,255 | 1,378,187 |
| Fees and commission expense | 3,153,510 | 3,042 |
| Postage, telephone, cables and telegrams | 2,876,528 | 69,350 |
| Information technology | 1,629,377 | 1,433,138 |
| Power, light and water | 1,243,120 | 429,705 |
| Security, clerical, messengerial and janitorial | 1,065,168 | 123,438 |
| Advertising | 921,503 | - |
| Insurance | 531,899 | 103,783 |
| Stationery and supplies | 461,089 | 149,812 |
| Association dues | 170,928 | 618,852 |
| Representation and entertainment | 138,731 | 108,812 |
| Repairs and maintenance | 127,524 | 188,908 |
| Transportation and travel | 118,172 | 105,495 |
| Membership fees and dues | 21,880 | 117,719 |
| Supervision and examination fees | 10,475 | 7,026 |
| Fines, penalties and other charges | 9,454 | - |
| Foreign exchange loss | - | 3,466 |
| Miscellaneous | 1,298,903 | 317,415 |
| | P 28,720,046 | P 8,698,563 |

Miscellaneous pertains to various expenses such as purchases of cleaning supplies and tokens.

*Other Income*

The composition of this account is shown below:

| | 2021 | 2020 |
|---|---|---|
| Inter-affiliate outsourcing *(see Note 21)* | P 9,779,823 | P - |
| Service charges and fees | 2,588,593 | - |
| Miscellaneous | 1,316,810 | 28,788 |
| | P 13,685,226 | P 28,788 |

Miscellaneous pertains to income from documentation, mortgage, and notarial fees.

## 19. INCOME TAXES

The components of tax expense as reported in the profit or loss are as follows:

| | 2021 | 2020 |
|---|---|---|
| Current tax expense: | | |
| Final tax at 20% | P 110,870 | P 118,698 |
| Deferred income tax benefit relating to origination and reversal of temporary differences | ( 7,305,951) | ( 5,139,279) |
| | (P 7,195,081) | (P 5,020,581) |

A reconciliation of tax on pretax loss computed at the applicable statutory rates to tax expense reported in the profit or loss is as follows:

| | 2021 | 2020 |
|---|---|---|
| Tax on pretax loss at 25% in 2021 and 30% in 2020 | (P 8,207,614) | ( P 5,062,575) |
| Adjustment for profit subjected to lower income tax rate | ( 27,718) | ( 59,349) |
| Tax effect of: | | |
| Non-deductible expenses | 27,718 | 77,335 |
| Change in tax rate | 986,138 | - |
| Deferred tax benefit relating to origination and reversal of temporary differences | 26,395 | 24,008 |
| | (P 7,195,081) | ( P 5,020,581) |

The Bank's net deferred tax assets as at December 31, 2021 and 2020 relate to the following:

| | Statements of Financial Position | | Statements of Comprehensive Income | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Deferred tax assets: | | | | |
| Net Operating Loss Carry-over (NOLCO) | P 11,466,432 | P 5,756,179 | (P 5,710,253) | (P 5,125,473) |
| Minimum corporate income tax (MCIT) | 194,020 | 26,395 | 26,395 | 24,008 |
| Impairment losses on loans and other receivables | 1,735,071 | 122,837 | ( 1,612,234) | - |
| Lease liabilities | 469,807 | 1,865,843 | 43,785 | ( 43,981) |
| Deferred tax liability: | | | | |
| Right-of-use asset | ( 422,135) | ( 1,828,029) | ( 53,644) | 6,167 |
| Net of deferred tax assets | P 13,443,195 | P 5,943,225 | | |
| Income tax benefit | | | (P 7,305,951) | (P 5,139,279) |

The amount of NOLCO and its availment period are shown below:

| Year Incurred | Amount | Applied | Expired | Valid Until |
|---|---|---|---|---|
| 2021 | P 26,678,464 | P - | P - | 2026 |
| 2020 | 17,084,910 | - | - | 2025 |
| 2019 | 2,102,353 | - | - | 2022 |
| | P 45,865,727 | P - | P - | |

On September 30, 2021, the BIR issued Revenue Regulation No. 25-2020 which prescribes the rules and regulations to implement Section 4 of Republic Act (RA) No. 11494 (Bayanihan to Recover as One Act) relative to NOLCO under Section 34 (D)(3) of the National Internal Revenue Code (NIRC) of 1997, as amended. Unless otherwise disqualified from claiming the deduction, the business or enterprise which incurred a net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss. The net operating loss for said taxable years may be carried over as a deduction even after the expiration of RA No. 11494 provided the same are claimed within the next five (5) consecutive taxable years immediately following the year of such loss.

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 1% in 2021 and 2% in 2020 gross income, as defined under the tax regulations. The said MCIT can be claimed as a tax credit in the next three years from the year it was incurred whenever the regular income tax is higher than the MCIT.

The details of MCIT are presented as follows:

| Year Incurred | Amount | Expired | Valid Until |
|---|---|---|---|
| 2021 | P 194,020 | P - | 2024 |
| 2018 | 26,395 | 26,395 | 2021 |
| | P 220,415 | P 26,395 | |

In 2021 and 2020, the Bank claims itemized deductions for income tax purposes.

*Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Act)*

On March 26, 2021, Republic Act No. 11534, otherwise known as "Corporate Recovery and Tax Incentives for Enterprises Act" or CREATE Act was signed into law amending certain provisions of the National Internal Revenue Code of 1997.

The key amendments in the Tax Code under the CREATE Act include, but are not limited to, the following:

a. Adoption of graduated Corporate Income Tax (CIT) rate effective July 1, 2020:

- 20% CIT for domestic corporations with total assets of not exceeding P100 million (excluding land on which the particular business entity's office is situated), and with net taxable income not exceeding P5 million.
- 25% CIT for other domestic corporations

b. 25% CIT for non-foreign corporations effective January 1, 2021.

c. Reduction of minimum corporate income tax (MCIT) from 2% to 1% from July 1, 2020 to June 30, 2023.

d. Reduction of CIT for proprietary, non-profit educational institutions and hospitals from 10% to 1% from July 1, 2020 to June 30, 2023.

e. Tax exemption of foreign-sourced dividends of domestic corporations subject to certain conditions

f. Clarification on the types of reorganizations covered by tax-free exchanges under Section 40(C)(2) of the Tax Code.

g. Repeal of improperly accumulated earnings tax (IAET).

h. Repeal of 10% special income tax rate on regional operating headquarters (ROHQ) starting January 1, 2022.

## 20. EQUITY

*Capital Stock*

Capital stock consists of:

| | Shares | | Amount | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Common stock – P10 par value | | | | |
| Authorized | 10,000,000 | 10,000,000 | P 100,000,000 | P 100,000,000 |
| Issued and outstanding | | | | |
| Balance at beginning of year | 10,000,000 | 7,500,000 | P 100,000,000 | P 75,000,000 |
| Issuance during the year | - | 2,500,000 | - | 25,000,000 |
| Balance at end of year | 10,000,000 | 10,000,000 | P 100,000,000 | P 100,000,000 |

On May 28, 2015, the Bank's Board of Directors (BOD) approved the five-year capital build-up program to infuse additional paid capital to comply with the minimum capital required by BSP. On November 25, 2015, the BSP approved the Bank's capital build-up program. In compliance with the approved program, the Bank's new stockholders infused an additional P25 million in 2020 *(see Note 24)*.

As at December 31, 2021 and 2020, the Bank has two stockholders owning 100 or more shares of each of the Bank's common stock.

In a regular meeting held on June 18, 2021, the Bank's Board of Directors approved the increased in capital stock from P100 million to P314 million, divided as follows:

| Share Type | No. of Shares | Par Value (Php) | Total Amount (Php) |
|---|---|---|---|
| Common (Existing) | 10,000,000 | P 10.00 | P 100,000,000 |
| Voting Preferred A (New) | 2,000,000 | 100.00 | 200,000,000 |
| Voting Preferred B (New) | 10,000,000 | 1.40 | 14,000,000 |
| | P 22,000,000 | | P 314,000,000 |

The BOD also approved the amendment on the following features, rights and restrictions in relation to the shares in the corporation:

1. Features and rights to the shares of corporation

   a. Voting. Holders of each share shall have one (1) vote each, regardless of its classification and par value.

   b. Ownership Restriction. Voting Preferred A Shares may be owned by Philippine nationals and non-Philippine nationals. Voting Preferred B Shares shall be owned exclusively by Philippine nationals, and shall at all times, together with any Common Shares owned by Philippine nationals, comprise of a minimum of at least forty percent (40%) of the total number of voting shares of the corporation, unless Philippine law allows foreign nationals to own more than sixty (60%) of the voting shares of the corporation.

   c. All Preferred Shares shall be non-cumulative and perpetual.

   d. Dividends and Liquidation. The distribution of dividends and liquidated value or a similar value shall be made in proportionate to the par value of each share regardless of its classification. Each Preferred Share shall have preferences in dividends and liquidation as may be fixed and approved by the Board of Directors, including the determination of the rate and manner of distribution of dividends and such other terms and conditions upon which such dividends or liquidation shall be payable, subject to existing regulations of the Bangko Sentral ng Pilipinas applicable to the declaration of dividends and liquidation.

2. Restrictions on transfer of shares

Each shareholder may transfer its Common or Preferred shares subject to the terms below:

a. Right of First Offer and Right of First Refusal

i. If a shareholder ("Transferor") intends to sell, transfer, assign or otherwise dispose of its shares (the "Sale Shares") to a third party (the "Potential Purchaser"), it shall given written notice (the "Transfer Notice") to the other shareholders ("Transferee") of its intent to transfer its shares, specifying the offer price and all other terms of the transfer (the "Offer"). Within thirty (30) days from the date of the Transfer Notice (the "Offer Period"), the Transferee may exercise a right of first refusal to purchase the Sale Shares or to arrange for a qualified person as designee to purchase the Sale Shares.

ii. If the Transferee (or, as the case may be, its designee) accepts the Offer within the Offer Period, the Transferor shall be bound to sell the Sale Shares to the Transferee or its designee on the terms and conditions set forth in the Transfer Notice, and such sale and purchase of Sale Shares shall be completed within thirty (30) days from the date of the acceptance of the Offer.

iii. If the Transferee does not exercise the right to purchase the Sale Shares prior to the expiry of the Offer Period, or following its exercise, the Sale Shares are not sold to the Transferee pursuant to the paragraphs above, the Transferor may transfer the Sale Shares to the Potential Purchaser at a price which is not lower than the offer price and on terms no more favorable than those specified in the Transfer Notice.

b. Representation of Successor Shareholders

No sale, transfer or other disposition of shares of stock, including any assignment of pre-emptive rights shall be made unless such person has the requisite legal personality under the laws of the Philippines or the country of its organization, has the financial capability to perform its obligations, and has the power to enter into and deliver an agreement for such sale, transfer or disposition, and to perform its obligations thereunder as evidenced by a duly adopted board resolution to such effect.

c. Validity of Shares Transfer

To the fullest extent allowed under applicable law, all sales, transfers or other dispositions of the shares of stock, including any assignment of pre-emptive rights, in the corporation in violation of this Article Twelfth shall be null and void ab initio for all intents and purposes, and shall not be registered in the books of the corporation.

The said increase in the Bank's authorized capital stock is yet to be filed with the BSP.

*Deposits for Stock Subscription (DSS)*

Relative to the Bank's increased in authorized capital stock, in 2021 the Bank received deposits from stockholders for stock subscription amounting to P74,939,894. The DSS is presented under the Liabilities section in the statements of financial position pending approval by the BSP and SEC on the said increase *(see Note 21)*.

## 21. RELATED PARTY TRANSACTIONS

The Bank's related parties include the directors, officers, stockholders and related interests (DOSRI).

The summary of the Bank's transactions and outstanding balances with the related parties follows:

| | 2021 | | 2020 | | |
|---|---|---|---|---|---|
| | Amount of Transactions | Outstanding Balance | Amount of Transactions | Outstanding Balance | Terms and Condition |
| **Stockholders** | | | | | |
| Deposits for stock subscription | P 74,939,894 | P 74,939,894 | P - | P - | |
| **Affiliates under Common Control** | | | | | |
| Welcome Finance, Inc. | 4,863,958 | - | 16,011,338 | - | Payable monthly in advance within 15 days from receipt of billing |
| | 9,779,823 | - | - | - | Payable every 5th working day receipt of billing or within 20 working days from end of previous month |
| | ( 4,863,032) | - | ( 149,284) | - | |
| | 9,885,420 | - | - | - | See Item d below |
| Welcome F & D Co., Ltd. | - | - | 5,433,992 | - | |
| Welcome Creditline Corp. | - | - | 2,601,092 | - | |
| **Key Management Compensation** | 11,218,919 | - | 4,694,364 | - | |

*Affiliates*

The following are the transactions with affiliates under common control:

a. On August 1, 2020, the Bank entered into an agreement with Welcome Finance, Inc. (WFI), a company under common control, covering an inter-affiliate reciprocal outsourcing agreement that is computed on an actual basis. In 2021, the outsourcing of services amounted to P9,779,823 presented as part of Other income in the statements of comprehensive income *(see Note 18)*. In 2021 and 2020, the insourcing of services amounted to P4,063,032 and P149,284, respectively, presented as part of Management and professional fees under Other administrative expenses in the statements of comprehensive income *(see Note 18)*.

   On April 28, 2021, the Bank acquired a Solution Packages with Rule base Credit & Lending Integrated Planning System (R-CIIPS), N-Builder and N-Strategy covered by Sales Agreement amounting to P1,095,526 from Welcome Finance, Inc. (WFI), a company under common control *(see Note 11)*.

On September 17, 2020, the Bank also entered into an agreement with WFI for the co-occupancy and cost-sharing agreement, purchase of assets, lease arrangements/contracts, and construction arrangement/contracts *(see Notes 9 and 10)*.

b. On February 1, 2020, the Bank entered into an agreement with Welcome F & D Co., Ltd., a Korean registered company under common control, for the development of an open source-based platform by converting the WBIS Loan System package, the availment of the services on enhancement and integration of the purchase of WBIS Loan System Advancement, maintenance service to cover the loan management system, and other software and IT needs amounting to P5,433,992 *(see Note 11)*.

c. On December 17, 2020, the Bank acquired the W Banking Loan System amounting to P2,601,092 from Welcome Creditline Corp., a Korean registered company under common control *(see Note 11)*.

d. In 2021, the Bank has taken-out loans from WFI amounting to P9,885,420 under the same credit terms extended by the affiliated company to its borrowers. Out of this amount, the Bank has already paid P9,528,690 as at December 31, 2021. The take-out loans have terms ranging from 1 to 3 years and bear annual interest ranging from 2.7% to 5%.

*Key Management Personnel Compensation*

Key management includes directors and officers with the position of manager and up. The compensations of key management personnel related mainly to short-term benefits amounting to P11,218,919 in 2021 and P4,694,364 in 2020.

## 22. COMMITMENTS AND CONTINGENCIES

*Operating Lease Commitments – Bank as Lessee*

The Bank is a lessee under an operating lease agreement covering certain office spaces. The lease has a remaining term of five months with renewal options.

The total rentals from this operating lease amounted to P9,403,530 in 2021 and P3,540,415 in 2020 which is presented as Rental under Other administrative expenses in the statements of comprehensive income *(see Note 18)*.

*Operating Lease Commitments – Bank as Lessor*

The Bank is a lessor under various operating lease contracts covering certain office spaces. The lease has terms ranging from one to three years with renewal options. The future minimum lease collections under these operating leases as at December 31, 2021 are as follows:

| | 2021 | 2020 |
|---|---|---|
| Within one year | P 2,270,020 | P 5,399,844 |
| After one year but not more than two years | - | 2,270,020 |
| | P 2,270,020 | P 7,669,864 |

The total rental income from this operating lease amounted to P2,968,432 in 2021 and P2,971,716 in 2020 which is presented as Rental in the statements of comprehensive income.

*Others*

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank does not anticipate significant losses as a result of these transactions.

## 23. RISK MANAGEMENT OBJECTIVES AND POLICIES

As a financial institution, the Bank's activities expose it to credit, market and liquidity, and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from a shortage in funding and/or lack of market for the sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, processes, systems and information technology and external events, including legal risk but excludes reputational risk.

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

The Board of Directors is mainly responsible for the overall risk management approach and the approval of risk strategies and principles of the Bank. It has also the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Bank's approach to risk issues in order to make relevant decisions.

*Credit Risk*

Credit risk is the risk that the counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits and investments.

The Bank manages credit risk through its credit policies, which are regularly reviewed and updated to reflect changing risk conditions. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring and collection guidelines. A codified signing authority is in place for every level of loan processing and approval. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of loans, collaterals are required to mitigate credit risk.

Bank's exposures to credit risk on loans and other receivables and other details pertaining to loans and receivables as at December 31, 2021 and 2020 are disclosed in Note 7.

The Bank's exposure to credit risk which arises from possible default of other counterparties with a maximum exposure equal to the carrying amounts of these instruments is addressed by investing its excess funds with various credit-worthy universal and commercial banks.

An analysis of the maximum exposure to credit risk, net of allowance for credit and impairment losses, to credit risk exposures before taking into account any collateral held or other credit enhancements for the components of the statements of financial position is shown below:

| | 2021 | 2020 |
|---|---|---|
| Due from Bangko Sentral ng Pilipinas | P 5,980,649 | P 557,771 |
| Due from other banks | 292,239,099 | 50,844,272 |
| Loans and other receivables | 182,277,182 | 16,475,474 |
| Financial assets at amortized cost | 969,942 | 1,173,986 |
| | P 481,466,872 | P 69,051,503 |

Financial instruments are recorded at fair value, the amount representing the current credit risk exposure that could arise in the future as a result of changes in values. The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below and in the succeeding pages.

a. *Due from Bangko Sentral ng Pilipinas*

The Due from BSP account represents the aggregate balance of non-interest bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Moreover, Due from BSP special deposit account is maintained to maximize earnings from excess funds. Hence, no significant credit risk is anticipated for these accounts.

b. *Due from other banks*

The Bank is able to manage the credit risk arising from Due from other banks by ensuring that banks where the financial assets are invested are of high reputation and good credit standing. Portion of due from other banks is secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under Republic Act (R.A.) No. 9576, *Amendment to Charter of Depository Insurance Corporation.*

c. *Loans and receivables*

The Bank is able to manage the credit risk arising from loans and receivables to individuals through (a) adherence to the credit policy guidelines set by the BOD wherein credit approving authority is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) an independent credit risk assessment by the Credit Approval Committee summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (c) and conducting borrower credit risk assessment performed at least annually.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, the Bank is exerting effort to actively dispose of these foreclosed properties.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of its net worth.

In addition, the Bank has credit risk exposure on unimpaired loans and other receivables that are past due per BSP definition as at the end of the reporting period.

As at December 31, 2021 and 2020, all of the Bank's financial assets were classified as neither past due nor impaired, except for those loans and receivables which were provided with an allowance for impairment in prior years *(see Note 7)*.

*d. Financial assets at amortized cost*

The carrying amount of Financial assets at amortized cost is the maximum possible credit risk exposure of the Bank in relation to the said investments.

The analysis of Bank's financial assets according to industry concentration, before taking into account any collateral held or other credit enhancements, follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Gross Maximum Exposure | Net Maximum Exposure | Gross Maximum Exposure | Net Maximum Exposure |
| According to industry: | | | | |
| Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use | P 108,432,453 | P 108,432,453 | P 1,794,679 | P 1,794,679 |
| Wholesale/retail trade of motor vehicles, motorcycles, and personal and household goods | 31,558,185 | 31,558,185 | 974,019 | 974,019 |
| Real estate, renting and business activities | 9,958,443 | 9,958,443 | 10,940,242 | 10,940,242 |
| Construction | 7,605,327 | 7,605,327 | 1,735,096 | 1,735,096 |
| Accomodation, and food service activities | 2,937,452 | 2,937,452 | - | - |
| Agriculture, forestry, and fishing | 2,215,061 | 2,215,061 | - | - |
| Manufacturing | 2,132,733 | 2,132,733 | - | - |
| Human health and social work activities | 1,352,625 | 1,352,625 | - | - |
| Transportation and storage | 1,245,697 | 1,245,697 | - | - |
| Information and communication | 290,566 | 290,566 | - | - |
| Electricity, gas, steam and air conditioning supply | 174,337 | 174,337 | - | - |
| Other service activities | 14,536,643 | 14,536,643 | 303,679 | 303,679 |
| | 182,439,522 | 182,439,522 | 15,747,715 | 15,747,715 |
| Allowance for impairment | - | ( 6,940,283 ) | - | ( 409,456) |
| | P 182,439,522 | P 175,499,239 | P 15,747,715 | P 15,338,259 |

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to development affecting a particular industry geographic location.

The following tables show the credit quality of financial assets by class (gross of allowance) of the Bank:

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | Past Due | | |
| | High Grade | Standard Grade | Substandard Grade | But Not Yet Impaired | Impaired | Total |
| Due from BSP | P 5,980,649 | P - | P - | P - | P - | P 5,980,649 |
| Due from other banks | 292,239,099 | - | - | - | - | 292,239,099 |
| Loans and other receivables: | | | | | | |
| Loans and discounts | 30,591,769 | 134,683,013 | - | 10,224,457 | 6,940,283 | 182,439,522 |
| Accounts receivable | 3,338,756 | - | - | - | - | 3,338,756 |
| Accrued interest receivable | 3,439,187 | - | - | - | - | 3,439,187 |
| Financial assets at amortized cost | 969,942 | - | - | - | - | 969,942 |
| | P336,559,402 | P134,683,013 | P - | P 10,224,457 | P 6,940,283 | P488,407,155 |

| | 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due Nor Impaired | | | Past Due | | |
| | High Grade | Standard Grade | Substandard Grade | But Not Yet Impaired | Impaired | Total |
| Due from BSP | P 557,771 | P - | P - | P - | P - | P 557,771 |
| Due from other banks | 50,844,272 | - | - | - | - | 50,844,272 |
| Loans and other receivables: | | | | | | |
| Loans and discounts | 11,272,828 | 4,065,431 | - | - | 409,456 | 15,747,715 |
| Accounts receivable | 1,023,718 | - | - | - | - | 1,023,718 |
| Accrued interest receivable | 113,497 | - | - | - | - | 113,497 |
| Financial assets at amortized cost | 1,173,986 | - | - | - | - | 1,173,986 |
| | P 64,986,072 | P 4,065,431 | P - | P - | P 409,456 | P 69,460,959 |

The bases in grading the Bank's financial assets are as follows:

1. *High Grade or low-risk loans*

   These loans are neither past due nor impaired which are fully secured by collateral and with good collection status. These are financial assets that have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation and the security is readily enforceable.

2. *Standard Grade or medium risk loans*

   Standard grade loans are neither past due nor impaired with partially secured loan status. These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with the experience of default.

3. *Substandard Grade*

   Substandard grade loans are those where the counterparties are, most likely, not capable of honoring their financial obligations. These loans include impaired loans which have continuous loan collection default issues or past due but not impaired loans and receivable accounts.

The succeeding tables show the aging analysis of past due but not impaired loans and receivables. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due.

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
| Loans and other receivables: | | | | | | |
| Loans and discounts | ₱ 10,224,457 | ₱ - | ₱ - | ₱ - | ₱ - | ₱ 10,224,457 |
| | 2020 | | | | | |
| | Less than 30 days | 31 to 60 days | 61 to 90 days | 91 to 180 days | Over 180 days | Total |
| Loans and other receivables: | | | | | | |
| Loans and discounts | ₱ - | ₱ - | ₱ - | ₱ - | ₱ - | ₱ - |

*Liquidity Risk*

Liquidity risk is generally defined as the current and prospective risk to earnings, or capital arising from the Bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs or there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity.

The Bank's Board of Directors is responsible for the overall management and oversight of the Bank's liquidity profile and the day-to-day management of liquidity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. A cash flow mismatch analysis is used to measure the Bank's liquidity. A maturity ladder is constructed to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Bank's funding requirements are not strained.

The following table shows the maturity profile of the financial assets and liabilities, based on the Bank's management of its liquidity structure:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | Beyond 1 Year | Total |
| Financial assets: | | | | | |
| Cash | ₱ 632,013 | ₱ - | ₱ - | ₱ - | ₱ 632,013 |
| Due from BSP | 5,980,649 | - | - | - | 5,980,649 |
| Due from other banks | 292,239,099 | - | - | - | 292,239,099 |
| Loans and other receivables: | | | | | |
| Loans and discounts | - | 143,000 | 7,019,688 | 175,478,953 | 182,641,641 |
| Accounts receivable | 3,338,756 | - | - | - | 3,338,756 |
| Accrued interest receivable | 2,670,980 | 71,390 | 696,907 | - | 3,439,187 |
| Financial assets at amortized cost | - | 97,911 | 116,430 | 755,601 | 969,942 |
| | 304,861,407 | 312,301 | 7,833,025 | 176,234,554 | 489,241,287 |
| Financial liabilities: | | | | | |
| Deposit liabilities | 100,805,807 | 27,475,905 | 111,071,808 | 50,425,811 | 289,779,331 |
| Bills payable | - | - | - | 100,000,000 | 100,000,000 |
| Lease liabilities | - | 1,127,538 | 751,692 | - | 1,879,230 |
| Deposits for stock subscription | - | - | - | 74,939,894 | 74,939,894 |
| Accrued interest and other liabilities | 806,526 | 84,535 | 1,256,911 | 255,025 | 2,402,997 |
| | 101,612,333 | 28,687,978 | 113,080,411 | 225,620,730 | 469,001,452 |
| Cumulative total gap | ₱ 203,249,074 | (₱ 28,375,677) | (₱ 105,247,386) | (₱ 49,386,176) | ₱ 20,239,835 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | On Demand | Less than 3 Months | 3 to 12 Months | Beyond 1 Year | Total |
| Financial assets: | | | | | |
| Cash | P 1,187,116 | P - | P - | P - | P 1,187,116 |
| Due from BSP | 557,771 | - | - | - | 557,771 |
| Due from other banks | 50,844,272 | - | - | - | 50,844,272 |
| Loans and other receivables: | | | | | |
| Loans and discounts | - | - | 1,000,000 | 14,880,318 | 15,880,318 |
| Accounts receivable | 1,023,718 | - | - | - | 1,023,718 |
| Accrued interest receivable | 113,497 | - | - | - | 113,497 |
| Financial assets at amortized cost | - | 97,911 | 116,430 | 959,645 | 1,173,986 |
| | 53,726,374 | 97,911 | 1,116,430 | 15,839,963 | 70,780,678 |
| Financial liabilities: | | | | | |
| Deposit liabilities | 5,437,533 | 150,000 | 8,669,481 | 10,051,991 | 24,309,005 |
| Lease liabilities | - | 1,025,594 | 3,314,652 | 1,879,230 | 6,219,476 |
| Accrued interest and other liabilities | - | 1,165 | 29,425 | 35,603 | 66,193 |
| | 5,437,533 | 1,176,759 | 12,013,558 | 11,966,824 | 30,594,674 |
| Cumulative total gap | P 48,288,841 | (P 1,078,848) | (P 10,897,128) | P 3,873,139 | P 40,186,004 |

The negative liquidity gap is due to the timing difference in the contractual maturities of assets and liabilities. The management measures the maximum funding requirement the Bank may need to support its mature ng obligations which are mostly in the form of Current Account Savings Account (CASA) deposits. To ensure that the Bank maintains a prudent and manageable level of a cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of deposits with banks. In addition, the majority of the stockholders have committed their financial support in the event of immediate funding requirements of its operations.

A prudential Minimum Liquidity Ratio (MLR) of twenty percent (20%) shall apply to banks on an ongoing basis absent a period of financial stress. On April 7, 2020, the BSP issued Memorandum No. M-2020-020 reducing the MLR from 20% to 16% until December 31, 2020. The effectivity of the reduction of MLR was further extended until December 31, 2021 under BSP Memorandum No. M-2020-085 dated December 1, 2020. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities. The liquidity ratio of the Bank expressed in percentage is shown below:

| | 2021 | 2020 |
|---|---|---|
| Liquid Assets | | |
| Cash on hand | P 632,013 | P 1,187,116 |
| Due from Bangko Sentral ng Pilipinas | 5,980,649 | 557,771 |
| Due from other banks | 292,239,099 | 50,844,272 |
| Financial assets at amortized cost | 969,942 | 1,173,986 |
| | P 299,821,703 | P 53,763,145 |
| Qualifying Liabilities | P 395,130,431 | P 37,537,907 |
| Liquidity percentage | 75.88% | 143.22% |

Based on the foregoing, the Bank was above the prudential MLR as at December 31, 2021 and 2020.

*Market Risk*

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-termination, and potential cash run-offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

a. *Foreign Currency Risk*

The Bank has no exposure to foreign currency risks as most transactions are denominated in the Philippine peso, its functional currency.

b. *Interest Rate Sensitivity*

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR).

EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from a one-year standard deviation change in interest rates, updated quarterly. EaR is calculated based on a 99.0% confidence level. It is accomplished monthly, with a quarterly stress test.

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cashflow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, financial assets at amortized cost and some floating-rate loans and payables.

The volatility in the interest rates of these financial instruments will result in an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The Due from BSP was not included in the cash flow interest rate risk sensitivity since the potential effects on net results and capital funds will be immaterial. Majority of loans and other financial assets and liabilities have fixed rates.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's net interest income:

| | 2021 | | | |
|---|---|---|---|---|
| | Increase (Decrease) in Basic Points | | | |
| | 23 | 68 | (23) | (68) |
| Change on net interest income: | | | | |
| Loans and receivables | P 13,686,082 | P 28,805,223 | (P 13,686,082) | (P 28,805,223) |
| Due from other banks | 93,830 | 277,411 | ( 93,830) | ( 277,411) |
| Financial assets at amortized cost | 8,170 | 24,156 | ( 8,170) | ( 24,156) |
| Deposit liabilities | ( 1,403,905) | ( 4,150,676) | 1,403,905 | 4,150,676 |
| Bills payable | ( 548,166) | ( 1,620,666) | 548,166 | 1,620,666 |
| | P 11,836,011 | P 23,335,448 | (P 11,836,011) | (P 23,335,448) |

| | 2020 | | | |
|---|---|---|---|---|
| | Increase (Decrease) in Basic Points | | | |
| | 23 | 68 | (23) | (68) |
| Change on net interest income: | | | | |
| Loans and receivables | P 248,064 | P 733,407 | (P 248,064) | (P 733,407) |
| Due from other banks | 101,946 | 301,406 | ( 101,946) | ( 301,406) |
| Financial assets at amortized cost | 7,256 | 21,453 | ( 7,256) | ( 21,453) |
| Deposit liabilities | ( 62,568) | ( 184,983) | 62,568 | 184,983 |
| | P 294,698 | P 871,283 | (P 294,698) | (P 871,283) |

One of the goals in the risk management process is the adoption of the economic value approach in measuring the interest rate risk in the banking book to complement the earnings approach or EaR currently used.

c. *Price Risk*

The Bank has no exposure to market price risk since the Bank has no trading portfolio arising from holding of government and other debt securities.

***Operations Risk***

Operations risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operations risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Bank has established measures to mitigate the effects of risks related to operations through its senior management. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

***Legal Risk***

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

*Regulatory Risks*

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Officer is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing and reporting compliance findings to the Audit and Compliance Committee and the BOD.

## 24. CAPITAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk level it recognizes at every point in time in the course of its business operations. No changes were made in the objectives, policies and processes from the previous years.

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) as reported to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRS in some respects. The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In addition, the capital adequacy ratio (CAR) of the Bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Bank for the purposes of determining the capital-to-risk assets ratio is 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 directors, officers, stockholders and related interests (DOSRI);
c. Deferred tax asset or liability;
d. Goodwill;
e. Sinking fund for the redemption of redeemable preferred shares; and,
f. Other regulatory deductions

Risk-weighted assets consist of total assets less 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 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 Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus

Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

a. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

b. Investments in debt capital instruments of unconsolidated subsidiary banks;

c. Investments in the equity of subsidiary insurance companies and nonfinancial allied undertakings;

d. Reciprocal investments in equity of other banks/enterprises; and,

e. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the capital adequacy ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

Under BSP Circular No. 280, effective July 1, 2001, the capital-to-risk assets ratio (CAR) considers relative credit risk. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is recognized by the Bank as well as 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.

The adjusted capital-to-risk assets ratio of the Bank is shown in the table below:

| | 2021 | 2020 |
|---|---|---|
| Tier 1 Capital | | |
| Common stock | P 100,000,000 | P 100,000,000 |
| Deficit | ( 12,868,795) | ( 1,014,128) |
| Comprehensive loss for the year | ( 25,635,372) | ( 11,854,667) |
| CET 1 | 61,495,833 | 87,131,205 |
| Less deduction from Tier 1 Capital | | |
| Deferred tax asset | 13,443,195 | 5,943,225 |
| | 48,052,638 | 81,187,980 |
| Tier 2 Capital | | |
| General loan loss provision | 1,680,738 | 335,874 |
| Total qualifying capital | P 49,733,376 | P 81,523,854 |
| Risk-weighted assets | P 522,427,422 | P 115,655,938 |

Capital ratios

| | | |
|---|---|---|
| Total CET 1 capital expressed as percentage of total risk weighted assets | 11.78% | 75.34% |
| Total Tier 1 capital expressed as percentage of total risk weighted assets | 9.20% | 70.20% |
| Total regulatory capital expressed as percentage of total risk weighted assets | 9.52% | 70.49% |

As at December 31, 2021, the Bank is below the capital adequacy ratio (CAR) prescribed by the BSP of 10%. Should the deposits for common stock subscription will be considered as qualifying capital, CAR will be 23.86%, which is above the 10% CAR prescribed by the BSP. CAR is computed as follows:

| | |
|---|---|
| Tier 1 Capital | |
| Common stock | P 100,000,000 |
| Deposit for common stock subscription | 74,939,894 |
| Deficit | ( 12,868,795) |
| Comprehensive loss for the year | ( 25,635,372) |
| CET1 | 136,435,727 |
| Less deduction from Tier 1 Capital | |
| Deferred tax asset | 13,443,195 |
| | 122,992,532 |
| Tier 2 Capital | |
| General loan loss provision | 1,680,738 |
| Total qualifying capital | P 124,673,270 |
| Risk-weighted assets | P 522,427,422 |
| Capital ratios | |
| Total CET 1 capital expressed as percentage of total risk weighted assets | 26.12% |
| Total Tier 1 capital expressed as percentage of total risk weighted assets | 23.54% |
| Total regulatory capital expressed as percentage of total risk weighted assets | 23.86% |

As at December 31, 2020, the Bank complied with the CAR prescribed by the BSP.

On May 26, 2010, the BSP issued Circular No. 688 known as "revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks" and referred to by the BSP as Basel 1.5 framework which involves only a few key changes to the old risk-based capital adequacy framework under Circular No. 280 dated 29 March 2001, as amended, which will take effect on January 1, 2012.

Further, the BSP issued Circular No. 854, *Minimum Capitalization of Banks* of which a rural bank whose head office and a branch are located in the National Capital Region shall have a required minimum capital of P75 million, which must be satisfied within five years from the date of effectivity. Banks that comply with the amended capital levels must submit to the BSP a certification within 30 calendar days from the date of effectivity of this circular. Banks not meeting the minimum required capital must submit to the BSP within one year from the date of effectivity of this circular on an acceptable capital build-up program.

On November 25, 2015, the BSP approved the Bank's capital build-up program in compliance with Circular No. 854 subjects to satisfaction by 2019. In line with the Bank's capital build-up program, the Bank's new stockholders infused additional capital amounting to P25 million in 2020.

As at December 31, 2021, the Bank did not meet the minimum capital requirement by the BSP of P75,000,000. However, the Bank received deposits for stock subscription of P74,939,894 to comply with the minimum capital *(see Note 20)*.

As at December 31, 2020, the Bank has satisfactorily meet the minimum capital requirement by the BSP.

*Leverage Ratio and Total Exposure Measure*

The Bank's leverage ratio and total exposure measure as of December 31 is presented as follows:

| | 2021 | 2020 |
|---|---|---|
| Total capital | P 61,495,833 | P 87,131,205 |
| Total assets | P 539,445,510 | P 126,013,405 |
| Leverage ratio | 11.40% | 69.14% |
| Total exposure measure | P 539,445,510 | P 126,013,405 |

Under BSP Circular No. 1079 Series of 2020 dated March 9, 2020, leverage ratio is computed as Total capital divided by Total Assets.

## 25. FAIR VALUE MEASUREMENT

*Carrying Amounts and Fair Values by Category*

The table below presents a comparison by category of carrying amounts and estimated fair values of the Bank's financial assets and liabilities as at December 31, 2021 and 2020.

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| *Financial Assets* | | | | |
| Cash | P 632,013 | P 632,013 | P 1,187,116 | P P1,187,116 |
| Due from BSP | 5,980,649 | 5,980,649 | 557,771 | 557,771 |
| Due from other banks | 292,239,099 | 292,239,099 | 50,844,272 | 50,844,272 |
| Loans and other receivables | 189,217,465 | 182,277,182 | 16,884,930 | 16,475,474 |
| Financial assets at amortized cost | 969,942 | 969,942 | 1,173,986 | 1,173,986 |
| | P 489,039,168 | P 482,098,885 | P 70,648,075 | P 70,238,619 |
| *Financial Liabilities* | | | | |
| Deposit liabilities | P 289,779,331 | P 289,779,931 | P 24,309,005 | P 24,309,005 |
| Bills payable | 100,000,000 | 100,000,000 | - | - |
| Lease liabilities | 1,879,230 | 1,879,230 | 6,219,476 | 6,219,476 |
| Deposits for stock subscription | 74,939,894 | 74,939,894 | - | - |
| Accrued interest and other liabilities | 11,351,222 | 11,351,222 | 8,353,719 | 8,353,719 |
| | P 477,949,677 | P 477,949,677 | P 38,882,200 | P 38,882,200 |

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

*i. Cash, Due from BSP and Due from other banks*

The carrying amounts approximate fair values given the short-term nature of the instruments.

*ii. Loans and receivables and Financial assets at amortized cost*

Loans and other receivables and financial assets at amortized cost and are carried at amortized cost less allowance for impairment loss. The estimated fair value of loans and receivables and Financial assets at amortized cost represents the discounted amount of estimated future cash flows expected to be received. Long-term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

*iii. Deposit liabilities and Bills payable*

The estimated fair value of deposit liabilities and bills payable is estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being value, if any. The carrying amount of deposit liabilities and bills payable approximates fair value considering their short duration.

iv. *Lease liabilities*

The estimated fair values of lease liabilities are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those terms of underlying right-of-use assets being value. The carrying amount of lease liabilities approximates fair value.

v. *Deposits for stock subscription*

The carrying amount of deposits for stock subscription approximates fair value considering their duration.

vi. *Accrued interest and other liabilities*

Accrued interest and other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

***Fair Value Hierarchy***

In accordance with PFRS 13, *Fair Value Measurements*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.
For financial assets and liabilities which do not have quoted market price, the fair value is determined by using generally accepted 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 counterparties or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses the valuation technique, it maximizes the use of observable market data where it is available and relies 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.

There have been no significant transfers among Levels 1, 2 and 3 in the reporting periods.

Cash, Due from BSP and Due from other banks is categorized as Level 1. Financial assets at amortized cost of the Bank are categorized as Level 2 in the absence of bid-offer as at reporting date and due to low volume of trading activity in the market. Loans and receivables and all financial liabilities are categorized as Level 3.

*Fair Value Measurement for Non-financial Assets*

There were no non-financial assets measured at fair value as at December 31, 2021 and 2020.

## 26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities and analyzed them according to whether they are expected to be recovered or settled within one year and beyond one year from the reporting date.

As at December 31, 2021, the maturity profile of assets and liabilities follows:

| | 2021 | | |
|---|---|---|---|
| | Due Within One Year | Due Beyond One Year | Total |
| Assets: | | | |
| Cash | P 632,013 | P - | P 632,013 |
| Due from BSP | 5,980,649 | - | 5,980,649 |
| Due from other banks | 292,239,099 | - | 292,239,099 |
| Loans and other receivables | | | |
| Loans and discounts - gross | 7,162,688 | 175,478,953 | 182,641,641 |
| Accounts receivable | 3,338,756 | - | 3,338,756 |
| Accrued interest receivable | 3,439,187 | - | 3,439,187 |
| Financial assets at amortized cost | 214,341 | 755,601 | 969,942 |
| Bank premises, furniture, fixtures and equipment | - | 24,317,233 | 24,317,233 |
| Right-of-use asset | - | 1,688,541 | 1,688,541 |
| Intangible assets | - | 10,801,386 | 10,801,386 |
| Deferred tax asset | - | 13,443,195 | 13,443,195 |
| Other assets | 726,992 | 6,369,278 | 7,096,270 |
| | P 313,733,725 | P 232,854,187 | P 546,587,912 |

| | 2021 | | |
|---|---|---|---|
| | Due Within One Year | Due Beyond One Year | Total |
| Liabilities: | | | |
| Deposit liabilities | P 239,353,520 | P 50,425,811 | P 289,779,331 |
| Bills payable | - | 100,000,000 | 100,000,000 |
| Lease liabilities | 1,879,230 | - | 1,879,230 |
| Deposits for stock subscription | - | 74,939,894 | 74,939,894 |
| Accrued interest and other liabilities | 11,096,197 | 255,025 | 11,351,222 |
| | P 252,328,947 | P 225,620,730 | P 477,949,677 |

As at December 31, 2020, the maturity profile of assets and liabilities follows:

| | 2020 | | |
|---|---|---|---|
| | Due Within One Year | Due Beyond One Year | Total |
| Assets: | | | |
| Cash | P 1,187,116 | P - | P 1,187,116 |
| Due from BSP | 557,771 | - | 557,771 |
| Due from other banks | 50,844,272 | - | 50,844,272 |
| Loans and other receivables | | | |
| Loans and discounts - gross | 1,000,000 | 14,880,318 | 15,880,318 |
| Accounts receivable | 1,023,718 | - | 1,023,718 |
| Accrued interest receivable | 113,497 | - | 113,497 |
| Financial assets at amortized cost | 214,341 | 959,645 | 1,173,986 |
| Bank premises, furniture, fixtures and equipment | - | 27,100,991 | 27,100,991 |
| Right-of-use asset | - | 6,093,430 | 6,093,430 |
| Intangible assets | - | 9,852,797 | 9,852,797 |
| Deferred tax asset | - | 5,943,225 | 5,943,225 |
| Other assets | 6,784,343 | - | 6,784,343 |
| | P 61,725,058 | P 64,830,406 | P 126,555,464 |

| | 2020 | | |
|---|---|---|---|
| | Due Within One Year | Due Beyond One Year | Total |
| Liabilities: | | | |
| Deposit liabilities | P 14,257,014 | P 10,051,991 | P 24,309,005 |
| Lease liabilities | 4,340,246 | 1,879,230 | 6,219,476 |
| Accrued interest and other liabilities | 8,318,116 | 35,603 | 8,353,719 |
| | P 26,915,376 | P 11,966,824 | P 38,882,200 |

## 27. STATEMENTS OF CASH FLOWS

### a. *Supplemental Information on Non-cash Investing and Financing Activities*

The Bank recognized right-of-use assets amounting to P1,688,541 in 2021 and P6,093,430 in 2020, and lease liabilities amounting to P1,879,230 in 2021 and P6,219,476 in 2020.

*b. Reconciliation of Liabilities Arising from Financing Activities*

Presented below is the reconciliation of the Bank's liabilities arising from financing activity, which includes both cash and non-cash changes:

| | Bills Payable *(see Note 15)* | Lease Liabilities *(see Note 10)* | Deposits for Stock Subscription *(see Note 20)* | Total |
|---|---|---|---|---|
| Balance at January 1, 2021 | P - | P 6,219,476 | P - | P 6,219,476 |
| Cash flows from financing activities: | | | | |
| Additional borrowings | 100,000,000 | - | - | 100,000,000 |
| Proceeds from deposits | - | - | 74,939,894 | 74,939,894 |
| Payments of lease liabilities | - | ( 4,340,246) | - | ( 4,340,246) |
| Interest on lease liabilities | - | ( 243,895) | - | ( 243,895) |
| Non-cash financing activity on interest amortization on lease liabilities | - | 243,895 | - | 243,895 |
| Balance at December 31, 2021 | P 100,000,000 | P 1,879,230 | P 74,939,894 | P 176,819,124 |
| Balance at January 1, 2020 | P - | P - | P - | P - |
| Cash flows from financing activities: | | | | |
| Additional lease | - | 7,928,800 | - | 7,928,800 |
| Payments of lease liabilities | - | ( 1,709,324) | - | ( 1,709,324) |
| Interest on lease liabilities | - | ( 146,604) | - | ( 146,604) |
| Non-cash financing activity on interest amortization on lease liabilities | - | 146,604 | - | 146,604 |
| Balance at December 31, 2020 | P - | P 6,219,476 | P - | P 6,219,476 |

## 28. IMPACT OF 2019 NOVEL CORONA VIRUS (COVID-19)

In March 2020, the World Health Organization declared the outbreak of COVID-19 to be a pandemic. The COVID-19 pandemic is having widespread, rapidly evolving, and unpredictable impacts on global society, economies, financial markets, and business practices. The Philippine government has implemented measures in an effort to contain the virus, including social distancing, travel restrictions, border closures, limitations on public gatherings, work from home, supply chain logistical changes, and closure of non-essential businesses. During the Enhanced Community Quarantine (ECQ), the banking sector is allowed to operate in a reduced banking hour. The Bank has undertaken a number of measures to monitor and mitigate the effects of COVID-19, such as the safety and health measures of personnel thru social distancing.

On April 1, 2020, the BSP issued a memorandum requiring all BSP-supervised financial institutions to comply with Section 4 (aa) of the Republic Act (R.A.) No. 11469 or the "Bayanihan to Heal As One Act" and its Implementing Rules and Regulations (IRR). The IRR mandated all covered institutions to implement a 30-day grace period to all loans with principal and/or interest falling due within the ECQ period, without incurring interest, penalties, fees and other charges. The 30-day grace period shall apply to each loan of individuals and entities with multiple loans. Covered institutions shall not charge or apply interest on interest, fees and charges during the 30-day grace period to future payments/amortizations of the borrowers. They are likewise prohibited from requiring their clients to waive the application of the provisions of R.A. No. 11469. No waiver previously executed by borrowers covering payments falling due during the ECQ period shall be valid. The accrued interest for the 30-day grace period may be paid by the borrower on a staggered basis over the remaining life of the loan.

Further, the "Bayanihan to Recover as One Act", also known as Bayanihan 2, and officially designated as R.A. No. 11494 was enacted in September 2020. Relative to this R.A, the Bank is required to comply with Section 4(uu) of R.A. No. 11494 to implement a mandatory one-time 60-day grace period to all loans that are existing, current and outstanding falling due, or any part thereof, on or before December 31, 2021. The mandatory one-time 60-day grace period shall apply to each loan of individuals and entities with multiple loans. The accrued interest for the one-time 60-day grace period may be paid by the borrower on a staggered basis until December 31, 2021. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date. The parties may agree to: *(a)* a grace period longer than 60 days, and/or *(b)* payment of accrued interest on a staggered basis beyond December 31, 2020.

The unprecedent impact of the COVID-19 pandemic and the government's stringent mobility/quarantine measures to contain the virus have affected economic conditions and consequently, the Bank's business operations in terms of the following:

- Scaled-down operations due to mobility/quarantine restrictions;
- Business units operating at less than full capacity as employees were unable to report for work;
- Limited sales activity for a business requiring face-to-face interaction due to social distancing;
- Additional costs to keep a safe and virus-free environment for both customers and employees; and,
- Asset quality deterioration due to business disruption and reduced income.

The following were the actions undertaken by the Bank's business to mitigate such impact:

- Operated as allowed by the government (consistent with quarantine guidelines) to provide continuing banking service to clients amid mobility restrictions during the community quarantine;
- Implemented new occupational safety and health standards to provide a safe and sanitized environment for both customers and employees through the strict observance of health and safety protocols and retrofitting of workspaces to minimize infection within the workplace;
- Performed comprehensive review of loan accounts to assess vulnerable sectors and assessment of allowance for impairment on loans and other receivables to provide for potential pandemic-related delinquencies; and,
- Complied with *Bayanihan I and Bayanihan II* by granting loan moratoria to qualified customers under the said Laws.

The COVID-19 pandemic has impacted and may continue to impact the Bank's business operations, including personnel, suppliers and customers and there is substantial uncertainty in the nature and degree of its continued effects over time. The Bank is currently unable to determine the extent of the impact on its future financial condition or results of operations. Management believes that the Bank will continue operating as a going concern despite the effects of the pandemic.

## 29. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP.

This supplementary information is not a required disclosure under PFRS. In compliance with the requirements set forth by Circular No. 1074, hereunder is the supplementary information:

*a. Financial Performance Indicators*

The following basic ratios measure the financial performance of the Bank:

| | 2021 | 2020 |
|---|---|---|
| Return on average equity | **(34.50%)** | (14.72%) |
| Return on average assets | **(7.70%)** | (11.32%) |
| Net interest margin | **11.28%** | 1.84% |

The following formulas were used to compute the indicators:

i. Return on Average Equity (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Capital Accounts}}$

Where:

Average Total Capital Accounts = $\frac{\text{Current calendar/fiscal year-end Total Capital Accounts balance + previous calendar/fiscal year-end Total Capital Accounts balance}}{2}$

ii. Return on Average Assets (%) = $\frac{\text{Net Income (or Loss) After Income Tax x 100}}{\text{Average Total Assets}}$

Where:

Average Total Assets = $\frac{\text{Current calendar/fiscal year-end Total Assets balance + previous calendar/fiscal year-end Total Assets balance}}{2}$

iii. Net Interest Margin (%) = $\frac{\text{Net Interest Income x 100}}{\text{Average Interest Earning Assets}}$

Where:

Net Interest Income = Total Interest Income – Total Interest Expense

Average Interest Earning Assets = $\frac{\text{Current calendar/fiscal year-end Total Interest Earnings Assets balance + previous calendar/fiscal year-end Total Interest Earning Assets balance}}{2}$

*b. Capital Instruments*

As at December 31, 2021 and 2020, the Bank has only one class of capital stock, which is common shares.

The details of capital stock and CAR are presented in *Notes 19 and 23*, respectively.

*c. Significant Credit Exposures as to Industry/Economic Sector*

The classification of loans as to industry and economic activity concentration follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use | P 108,432,453 | 59.43 | P 1,794,679 | 11.40 |
| Wholesale/retail trade of motor vehicles, motorcycles, and personal and household goods | 31,558,185 | 17.30 | 974,019 | 6.18 |
| Real estate, renting and business activities | 9,958,443 | 5.46 | 10,940,242 | 69.47 |
| Construction | 7,605,327 | 4.17 | 1,735,096 | 11.02 |
| Accommodation and food service activities | 2,937,452 | 1.61 | - | - |
| Agriculture, forestry, and fishing | 2,215,061 | 1.21 | - | - |
| Manufacturing | 2,132,733 | 1.17 | - | - |
| Human health and social work activities | 1,352,625 | 0.74 | - | - |
| Transportation and storage | 1,245,697 | 0.68 | - | - |
| Information and communication | 290,566 | 0.16 | - | - |
| Electricity, gas, steam and air, conditioning supply | 174,337 | 0.10 | - | - |
| Other service activities | 14,536,643 | 7.97 | 303,679 | 1.93 |
| | P 182,439,522 | 100.00 | P 15,747,715 | 100.00 |

The BSP considers the existence of loan concentration when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. Loan concentration risk of the Bank was noted for activities of households as employers and undifferentiated goods-and-services producing activities of households for own use with 59.43% in 2021 and real estate, renting and business activities with 69.47% in 2020. A significant reduction of 64.01% was noted on real estate, renting and business activities due to the Bank's proper monitoring and diversification of the loan portfolio in 2021.

*d. Breakdown of Total Loans as to Security and Status*

As to security, the composition of total loan portfolio (net of UD23) is presented below:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Secured: | | | | |
| Real estate mortgage | P 31,857,160 | 17.46 | P 11,272,827 | 71.58 |
| Other collateral | - | - | - | - |
| | 31,857,160 | 17.46 | 11,272,827 | 71.58 |
| Unsecured | 150,582,362 | 82.54 | 4,474,888 | 28.42 |
| | P 182,439,522 | 100.00 | P 15,747,715 | 100.00 |

As at December 31, 2021 and 2020, the fair value of the collaterals of secured loans of the Bank amounts to P62,512,000 and P16,929,000, respectively. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing and generally not updated except when a loan is individually assessed as impaired.

The breakdown of loans and discounts (net of UD) by status is presented below:

| | 2021 | 2021 |
|---|---|---|
| Current | P 165,274,782 | P 15,674,133 |
| Past due but not yet non-performing | 12,356,833 | - |
| Past due and already non-performing | 4,807,907 | 73,582 |
| | P 182,439,522 | P 15,747,715 |

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Current | Past due but not yet Non-performing | Past due and already Non- performing | Items in Litigation | Total |
| Loans to individuals for consumption | P 101,667,364 | P 5,952,581 | P 812,509 | P - | P 108,432,454 |
| Microenterprise loans | 30,542,277 | 3,792,542 | 3,995,398 | - | 38,330,217 |
| Loans to individuals for housing purposes | 4,498,312 | 2,611,710 | - | - | 7,110,022 |
| Small scale enterprise | 548,421 | - | - | - | 548,421 |
| Loans to individual for other purposes | 28,018,408 | - | - | - | 28,018,408 |
| | P 165,274,782 | P 12,356,833 | P 4,807,907 | P - | P 182,439,522 |

| | 2020 | | | | |
|---|---|---|---|---|---|
| | Current | Past due but not yet Non-performing | Past due and already Non- performing | Items in Litigation | Total |
| Loans to individuals for consumption | P 1,721,097 | P - | P 73,582 | P - | P 1,794,679 |
| Microenterprise loans | 974,019 | - | - | - | 974,019 |
| Loans to individuals for housing purposes | 7,725,706 | - | - | - | 7,725,706 |
| Small scale enterprise | 801,016 | - | - | - | 801,016 |
| Loans to individual for other purposes | 4,452,295 | - | - | - | 4,452,295 |
| | P 15,674,133 | P - | P 73,582 | P - | P 15,747,715 |

An analysis of changes in the gross carrying amounts of loans as at December 31, 2021 and 2020 follows:

| | 2021 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Gross carrying amounts as at January 1, 2021 | P 15,806,736 | P - | P 73,582 | P 15,880,318 |
| New assets originated | 169,328,828 | - | - | 169,328,828 |
| Assets derecognized or prepaid | ( 2,567,505) | - | - | ( 2,567,505) |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | ( 5,291,061) | 5,291,061 | - | - |
| Transfer to Stage 3 | ( 9,203,198) | - | 9,203,198 | - |
| Amounts written-off | - | - | - | - |
| Gross carrying amounts as at December 31, 2021 | P 168,073,800 | P 5,291,061 | P 9,276,780 | P 182,641,641 |

| | 2020 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Gross carrying amounts as at January 1, 2020 | P 9,855,940 | P - | P 73,582 | P 9,929,522 |
| New assets originated | 7,280,014 | - | - | 7,280,014 |
| Assets derecognized or prepaid | ( 1,329,218) | - | - | ( 1,329,218) |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| Amounts written-off | - | - | - | - |
| Gross carrying amounts as at December 31, 2020 | P 15,806,736 | P - | P 73,582 | P 15,880,318 |

Per BSP's Manual of Regulations for Banks (MORB), loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, the Bank may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Provided, that any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays. Provided, further, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that the Bank shall regularly review the reasonableness of its cure period policy. For microenterprise and other small loans that feature high-frequency payments, the cure period allowable by the policy shall not exceed ten (10) days.

Also, per BSP's MORB, loans, investments, receivables, or any financial asset shall be considered non-performing, 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 non-performing if any principal and/or interest are unpaid for more than ninety (90) days from the contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microenterprise and other small loans with similar credit characteristics shall be considered non-performing after the contractual due date or after it has become past due.

Restructured loans, which do not meet the requirements to be treated as performing loans, shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As of December 31, 2021 and 2020, non-performing loans of the Bank amounted to P4,807,907 and P73,582, respectively. The Bank does not have loans in litigation and restructured loans in both years.

e. *Information on Related Party Loans*

Existing banking regulations limit the amount of individual loans to DOSRI, 70% 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 Bank's total regulatory capital or 15% of the total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until the said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10% of the bank's net worth, the unsecured portion shall not exceed 5% of such net worth. Further, the total outstanding exposures shall not exceed 20% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

The following table shows information relating to loans to DOSRI accounts of the Bank:

| | 2021 | 2020 |
|---|---|---|
| Total outstanding DOSRI accounts | ₱ - | ₱ - |
| Unsecured DOSRI loans | - | - |
| Outstanding total loan portfolio | 182,439,522 | 15,747,715 |
| Percent of DOSRI accounts granted under BSP Circular No. 423 | - | - |
| Percent of DOSRI accounts to total loans | - | - |
| Percent of unsecured DOSRI accounts to total DOSRI loans | - | - |
| Percent of past due DOSRI accounts to total DOSRI loans | - | - |
| Percent of nonperforming DOSRI accounts to total DOSRI loans | - | - |

The Bank has no loan transactions with its DOSRI.

*f. Aggregate Amount of Secured Liabilities and Assets Pledged as Security*

The Bank did not have any secured liabilities or assets pledged as security as at December 31, 2021 and 2020, except for lease liabilities amounting to P1,879,230 and P6,219,476, respectively, which are secured by the underlying Right-of-use asset with a net carrying value of P1,688,541 and P6,093,430, respectively *(see Note 10)*.

*g. Commitments and Contingent Liabilities*

As at December 31, 2021 and 2020, the Bank has no commitments and contingent liabilities arising from off-balance sheet items. Relevant disclosures on commitments and contingencies liabilities are fully discussed in Note 21.

## 30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

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

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

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

*a. Gross Receipts Tax*

In lieu of the value-added tax, the Bank is subject to the gross receipts tax imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the 1997 National Internal Revenue Code.

The Bank reported total gross receipts tax (GRT) amounting to P3,181,153 for the period January to December 2021. The GRT paid is presented as part of Taxes and licenses in the statements of comprehensive income.

b. *Documentary Stamp Taxes*

The Bank paid documentary stamp taxes (DST) amounting to P2,506,933 pertaining to the execution of the debt instrument. The DST paid is presented as part of Taxes and licenses in the statements of comprehensive income.

c. *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2021 are shown below:

| | | |
|---|---|---|
| Compensation | P | 2,417,410 |
| Expanded | | 1,476,479 |
| Final | | 657,779 |
| | P | 4,551,668 |

d. *Taxes and Licenses*

The details of taxes and licenses for the year ended December 31, 2021 are as follows:

| | | |
|---|---|---|
| Gross receipt taxes | P | 3,181,153 |
| Documentary stamp taxes | | 2,506,933 |
| Municipal licenses and business permit | | 229,673 |
| Real property tax | | 28,983 |
| Annual registration fee | | 1,000 |
| Others | | 16,179 |
| | P | 5,963,921 |

e. *Value Added Tax, Excise Tax and Customs Duties and Tariff fees Paid*

The Bank is not subject to value-added tax (input and output) and excise tax due to the nature of its business. Moreover, the Bank did not pay any customs duties and tariff fees as it did not import any goods for the year ended December 31, 2021.

f. *Deficiency Tax Assessments and Tax Cases*

As at December 31, 2021, the Bank neither has any final deficiency tax assessment with the BIR nor tax case outstanding nor pending in courts or bodies outside the BIR during the year.

WELCOME BANK (RURAL BANK), INC.
*(FORMERLY SMART BANK (RURAL BANK), INC.)*
SUMMARY OF COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2021

## MINIMUM CAPITAL REQUIREMENTS

*Comment*

Under Bangko Sentral ng Pilipinas (BSP) Circular No. 854 Minimum Capitalization of Banks dated October 29, 2014, the minimum capitalization requirement with Head Office in National Capital Region with up to 10 branches of P75 million must be satisfied within five years from the date of effectivity of this Circular. As of December 31, 2021, the Bank's total qualifying capital amounted to P49,733,376, which is below the required minimum capitalization.

Though the Bank received deposits for stock subscription of P74,939,894, such deposits are not qualified to form part as equity for prudential reporting pursuant to Section 123 of Manual of Regulations for Bank (MORB).

*Recommendation*

We recommend the Bank to monitor the continuing compliance to avoid appropriate actions imposed by the BSP and sanctions for non-compliance as provided under existing Bangko Sentral rules and regulations. Further, we suggest the immediate compliance of Section 123 of MORB so that the deposits for stock subscription be recognized as equity to comply with the minimum capital requirements.

*Bank's Reply*

Welcome Bank (Rural Bank), Inc. had applied to BSP FSD1 for the amendment of the Articles of Incorporation for the increase in Authorized Capital Stock to P314,000,000.00 with Board and Shareholders approval authorizing the amendments in June 2021. As the current authorized capital stock of P100,000,000.00 (10,000,000 shares @P10/share) is fully subscribed and paid-up, this precluded the Bank from increasing the capital stock without amending the AOI as per SEC regulations. Relatively, a Deposit for Stock Subscriptions in the amount of P74,939,894 is on deposit with KEB Hana Bank Manila Branch and booked under the Liability portion of the Balance Sheet as of 31 December 2021.

Further and to date still awaiting the BSP Office of the General Counsel's clearance for the approval of the amendment of the AOI and resubmission of application for approval of the amendments of the AOI and By-laws, SEC has released on 15th March 2022 a legal opinion in favor of Welcome Bank (Rural Bank), Inc. for the issue of legality on the articulation of dividends pay-out and liquidity value distribution based on par value in the AOI and By laws which is the pending issue of the non-approval of the AOI by BSP. Upon approval of the BSP, the Deposits for Subscriptions shall be booked and included under Equity portion of the Balance Sheet that will comply with the minimum capital requirement of P75,000,000.00 for a rural bank with Head Office and less than ten (10) branches.

## CAPITAL ADEQUACY RATIO (CAR)

*Comment*

The BSP issued Circular No. 1079, *Amendments to the Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks* dated March 9, 2020, which provides the implementing guidelines on the revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The Circular sets out a minimum Common Equity Tier 1 (CET1) Ration of 6%, Tier 1 Ratio of 7.5% and Capital Adequacy Ratio (CAR) of 10%. A capital conservation buffer (CCB) of 2.5%, comprised of CET1 capital shall likewise be imposed. These ratios shall be maintained at all times. The Bank's CAR as of December 31, 2021 stood at 9.52% which is below the prescribed CAR prescribed by the BSP of 10%.

As mentioned above, though the Bank received deposits for stock subscription of P74,939,894, such deposits are not qualified to form part as equity for prudential reporting pursuant to Section 123 of MORB. Hence this was not included in the computation of CAR.

*Recommendation*

The inclusion of deposits for stock subscription of P74,939,894 will increase the Bank's CAR to 23.86% which is above the prescribed CAR of 10%. Hence, we recommend the immediate compliance of Section 123 of MORB so that the deposits for stock subscription be recognized as equity to comply with the prescribed CAR.

*Bank's Reply*

Welcome Bank (Rural Bank), Inc. 's reply to the comment on under compliance with the minimum 10% Capital Adequacy Ratio (CAR) is the same as per the reply to compliance to minimum capital requirements.

## BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

*Comment*

Under Section 109 of MORB, the total investment of a bank in real estate and improvements thereon, including bank equipment, shall not exceed 50% of the bank's net worth. As at December 31, 2021, the Bank exceeded the 50% ceiling requirement on bank premises, furniture, fixtures and equipment.

*Recommendation*

The inclusion of deposits for stock subscription of P74,939,894 will comply the ceiling on total investments. Hence, we recommend the immediate compliance of Section 123 of MORB so that the deposits for stock subscription be recognized as equity to comply with the prescribed ceiling.

*Bank's Reply*

Reference is made to our reply to comment nos. 1 and 2, as the recognition of the Deposits for Stocks Subscription in the Balance Sheet under Equity upon approval of the BSP of the amendments to the AOI, the Bank will comply to the prescribed ceiling of 50% on total investments to bank premises, furniture, fixtures and equipment.

LOAN CONCENTRATION

*Comment*

Under Circular 212-1999/174 of MORB, the BSP considers the existence of loan concentration when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. We have noted that the Bank has loan concentration risk on activities of households as employers and undifferentiated goods-and-services producing activities of households for own use as it grants loans for this purpose equivalent to 59.43% of the total loan portfolio.

*Recommendation*

While concentration of credit risks is inherent in banking and cannot be totally eliminated, this can be mitigated by adopting policies and processes for identifying, reviewing, managing and reporting large exposures and concentration risks that would limit and control credit exposures and employing portfolio diversification strategies. We recommend timely identifying and monitoring credit risk concentrations and promptly reported to the board and management for appropriate corrective action. The Bank should also include and clearly articulated in the credit policy the circumstances under which limits may be exceeded and the party authorized to approve such excesses in able for this exception to policy to be allowed.

*Bank's Reply*

Welcome Bank's resumption of its lending business and offering diversified loan products to the general public in 2020, however, with the outbreak of COVID 19 pandemic that affected owners of small business enterprises and its employees and the thrust to heed to the call of the government to provide and grant credit to affected microenterprise businesses, paved the way and resulted in the large concentration on loans to households as employers and activities and undifferentiated goods-and-services producing activities of households for own use equivalent to 59.43% of the total loan portfolio exceeding the 30% cap to said industry.

Management and monitoring of concentration of credit risk is articulated in the Credit Policy Manual and any exposures that exceeded to the Risk Acceptance Criteria is with deviation approval from the Credit Authority as recorded in the system.

## AGRICULTURE AND AGRARIAN (AGRI-AGRA) REFORM CREDIT

*Comment*

Under Section 331 of MORB, banks shall set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and agrarian reform credit in general, of which at least ten percent (10%) of the total loanable funds shall be made available for agrarian reform beneficiaries. Excess compliance in the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa. The Bank's Agri-Agra mandatory allocation of 3.27% and 0.25% as of December 31, 2021 is below the 15% required allocation.

*Recommendation*

We recommend the Bank to monitor its compliance with Agri-Agra mandatory allocation. The Bank might consider allowable alternative compliance as required under Section 331 of MORB to avoid paying penalties imposed by Bangko Sentral ng Pilpinas.

*Bank's Reply*

The Bank's is with conscious effort to grant credit to agri-agra businesses . However, the limited branch saturation area contributed to the non-compliance to the 15% and 10% Agri-Agra compliance as locations of the Welcome Bank's branches are both at NCR that is highly urbanized. With the strategic plan of converting to branch lites and the Loan Centers located in different provinces of Luzon, Visayas and Mindanao will be able to source loan accounts to avail from the mandatory agri-agra allocation of the loanable funds.

Thrust of developing and offering of loan products and services to agricultural and agrarian industries is prime consideration in the Sustainability Framework of the Bank.

Monitoring and strict adherence to the required mandatory allocation of loanable funds to agri-agra is regularly considered and reported to Management and the Board.

## RETIREMENT PLAN

*Comment*

The Bank has not yet adopted a formal retirement plan. Republic Act (RA) No. 7641 (The Retirement Pay Law), which took effect on January 7, 1993, amended the Labor Code by providing for minimum retirement pay to qualified employees in the private sector. With the passage of RA 7641, covered companies without existing retirement plans are now required by law to provide retirement benefits to their employees.

*Recommendation*

RA No. 7641 (The Retirement Pay Law) specifies a minimum provision for retirement benefits of employees. The Law applies to companies with at least ten (10) employees. To comply with the requirements of the Law, as well as the requirement of accounting standards relating to retirement benefits (which cover even informal or unfunded plans), the Bank should accrue in its accounting books an estimated amount of annual retirement benefits.

Further, we highly recommend the Bank to obtain actuarial valuation of its retirement plan from a recognized actuary to meet the projected retirement obligation and in compliance with Philippine Accounting Standards 19, *Employee Benefits*. This actuarial valuation be regularly performed every after two years. The Bank's retirement plan should also be funded to be considered as deduction for tax purposes as long as this plan is tax-qualified (registered with the Bureau of Internal Revenue). At present, the accrual is not deductible for tax purposes. The retirement plan can be managed by a trustee in such a way that its earnings can somewhat offset or mitigate inflation or other possible liabilities of the Bank.

*Bank's Reply*

Welcome Bank is compliant to the mandatory requirement of a minimum retirement benefit mandated by R.A. no. 7641 (The Retirement Pay Law) as embodied in the Welcome Bank (Rural Bank), Inc.'s Employee Handbook…

> H. RETIREMENT PAY (Article 301)
>
> Employees shall be retired upon reaching the age of sixty (60) years or more but not Beyond sixty-five (65) years old and (have served the establishment for at least five (5) years).
>
> The minimum retirement pay shall be equivalent to one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year.

The Bank is to outsource for the actuarial valuation to be performed by Actuarial Exponents, Inc. of all employees to determine the liability or obligations of the Bank and accrue the necessary provisions for the annual retirement benefits in the books.

AMC & ASSOCIATES

*Certified Public Accountants*

## CERTIFICATION ON LETTER OF COMMENTS (LOC)

In connection with our audit of the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* (the **"Bank"**) as at and for the year ended December 31, 2021, we hereby certify that the attached Letter of Comments was submitted to the Board of Directors on March 30, 2022.

This certification is issued in compliance with Section 174 of the Manual of Regulations for Banks pursuant to Section 1 of the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 dated February 7, 2020.

**AMC & ASSOCIATES**

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 8857523, Jan. 6, 2022, Makati City
BIR Accreditation No. 08-003584-1-2021
(valid until Dec. 19, 2024)
SEC Accreditation No. 89570 (Group A)
(valid until Dec. 31, 2025)
IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

March 30, 2022

CITY OF MANILA

SUBSCRIBED AND SWORN to before me this 13 APR 2022 day of _____ at _____ affiant exhibited to me his Community Tax Certificate No. 08778743 issued at Makati City on January 6, 2022.

ATTY. LEONARDO A. SARMIENTO III
Notary Public for the City of Manila
Notarial Commission NO. 2020-445
Extended until 12-31-2022 R.M. No. 2785
BIR JR No. 01549190164-2022
IBP OR No. 094482/01-04-2022
Roll of Attorney No. 55618
MCLE No. VI-0022748/04-07-19

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Book No. LXXV
Series of 2022

AMC & ASSOCIATES

*Certified Public Accountants*

March 30, 2022

**Ms. Judith E. Sungsai**
**Senior Director**
**Financial Supervision Department I**
**Bangko Sentral ng Pilipinas**
A. Mabini Street
Malate, Manila

Barbara Z. Punsalan
6APR'22AM11:40BSPFDSB100355

Dear Ms. Sungsai:

In compliance with Section 174 of the Manual of Regulations for Banks pursuant to Section 1 of the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 dated February 7, 2020, we hereby certify the following relative to our audit of the financial statements of **Welcome Bank (Rural Bank), Inc.** *(Formerly Smart Bank (Rural Bank), Inc.)* (the **"Bank"**) as at and for the year ended December 31, 2021:

1. The following are the material breach of laws or Bangko Sentral rules and regulations:

   a. *Required Minimum Capital for Rural Banks*

      Under Bangko Sentral ng Pilipinas (BSP) Circular No. 854, *Minimum Capitalization of Banks,* dated October 29, 2014, the minimum capitalization requirement with Head Office in National Capital Region with up to 10 branches of P75 million must be satisfied within five years from the date of effectivity of this Circular. As of December 31, 2021, the Bank's total capitalization amounted to P48,052,638 (excluding deferred tax assets of P13,443,195), which is below the required minimum capitalization.

      Though the Bank received deposits for stock subscription of P74,939,894, such deposits are not qualified to form part as equity for prudential reporting pursuant to Section 123 of Manual of Regulations for Bank (MORB). Had this included as part of equity will increase the Bank's capitalization to P122,992,532.

   b. *Risk-based Capital Adequacy Framework*

      The BSP issued Circular No. 1079, *Amendments to the Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks,* dated March 9, 2020, which provides the implementing guidelines on the revised risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The Circular sets out a minimum Common Equity Tier 1 (CET1) Ratio of 6%, Tier 1 Ratio of 7.5% and Capital Adequacy Ratio (CAR) of 10%. A capital conservation buffer (CCB) of 2.5%, comprised of CET1 capital shall likewise be imposed. These ratios shall be maintained at all times.

The Bank's CAR as of December 31, 2021 stood at 9.52% which is below the prescribed CAR by the BSP of 10%. Though the Bank received deposits for stock subscription of P74,939,894 such deposits are not qualified to form part as qualifying capital for prudential reporting pursuant to Section 123 of MORB. Had this included in the computation of CAR would have been increased to 23.86%.

Moreover, we hereby certify the following matters as required under BSP Circular 1074:

1. There is no discovery of any material finding involving fraud or error;

2. There are no actual or potential losses the aggregate of which amounts to at least 10% of the total assets of the Bank;

3. There is no significant doubt as to the ability of the Bank to continue as a going concern;

4. There is no material breach of laws or Bangko Sentral rules and regulations such as but not limited to the following:

   a. Minimum Liquidity Ratio (MLR)
   b. Significant deficiency in allowance for credit losses
   c. Material weaknesses in fair value measurement methodology
   d. Significant vulnerabilities to money laundering and combating the financing of terrorism

5. There are no material internal control weaknesses which may lead to financial reporting problems; and

6. There are no findings on matters of corporate governance that may require urgent action by the Bangko Sentral.

AMC & ASSOCIATES

*Certified Public Accountants*

It is however, understood that the accountability of an external auditor is based on matters within the normal coverage of an audit conducted in accordance with Philippine Standards on Auditing.

**AMC & ASSOCIATES**

By: **Ariel D. Gonzales**
**Partner**
CPA Certification No. 89570
TIN 169-688-077-000
PTR No. 8857523, Jan. 6, 2022, Makati City
BIR Accreditation No. 08-003584-1-2021
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IC Accreditation No. 89570-IC (Group A)
(valid until Dec. 31, 2024)
BSP Accreditation No. 89570-BSP (Group B)
(valid until Dec. 31, 2025)

March 30, 2022

CITY OF MANILA

05 APR 2022

SUBSCRIBED AND SWORN to before me this ____ day of _____at _____ affiant exhibited to me his Community Tax Certificate No. 08778743 issued at Makati City on January 6, 2022.

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Page No. 59
Book No. LXXV
Series of 2022

ATTY. LEONARDO A. SARMIENTO III
Notary Public for the City of Manila
Notarial Commission No. 2020-049
Extension until 06-30-20220 IBP No. 3705
PTR OR No. 0154819/01/04/2022
IBP No. 094682/01-04-2022
Roll of Attorney No. 55418
MCLE No. VI-0022748/04-02-19