

# ANNUAL REPORT 2019

[www.northpoint.ph](http://www.northpoint.ph)



NORTHPOINT DEVELOPMENT BANK

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## CORPORATE VISION

*To be the preferred partner of Micro, Small and Medium Enterprises (MSMEs) by continuously adding value as they build, expand and diversify their businesses.*

## CORPORATE MISSION

*To grow the businesses of MSMEs by providing relevant business advice and/or financial assistance to achieve entrepreneurial success. To grow our EMPLOYEES by continuously developing and inspiring them through continuous training, employee engagement activities and career advancement. To grow the investment returns of SHAREHOLDERS through diligent implementation of the bank's annual strategies.*



*Northpoint Development Bank, Inc. (NORDB) is a part of the continuously growing businesses of the Ongtenco Family operating in diverse industries: vehicle distributorship, real estate, education, and banking. NORDB is a subsidiary of the Ongtenco group of companies. Its sister companies consist of Motortrade Nationwide Corporation, Bank of Makati (A Savings Bank), Inc., Fundline Finance Corporation, Veradex Development Corporation, Honda Prestige Traders, Inc., Global Reciprocal Colleges, Transnational Properties, Inc., Motortrade Topline Inc., and Motorjoy Depot, Inc.*

*Northpoint Development Bank, Inc was originally founded as a rural bank in May 22, 1956. It used to be known as Urdaneta Rural Bank, Inc. and was later called New Urdaneta Rural Bank, Inc. in 1983. The bank considered the town of Urdaneta, Pangasinan its first home, hence the names. Through BSP and SEC approvals in 1998, the bank upgraded its classification from a rural bank to a thrift bank and changed its name to Northpoint Development Bank, Inc.*

*In June 2012, Northpoint Development Bank, Inc. was acquired by the Ongtenco Family. The new management increased the original authorized capital tenfold – from Php 100 Million to Php 1 Billion. Total paid-up capital is at Php 400 Million. This bold move enabled a fresh beginning for the bank to use the banking engine in the furtherance of its mission and vision.*



# CORPORATE BRAND TAGLINE



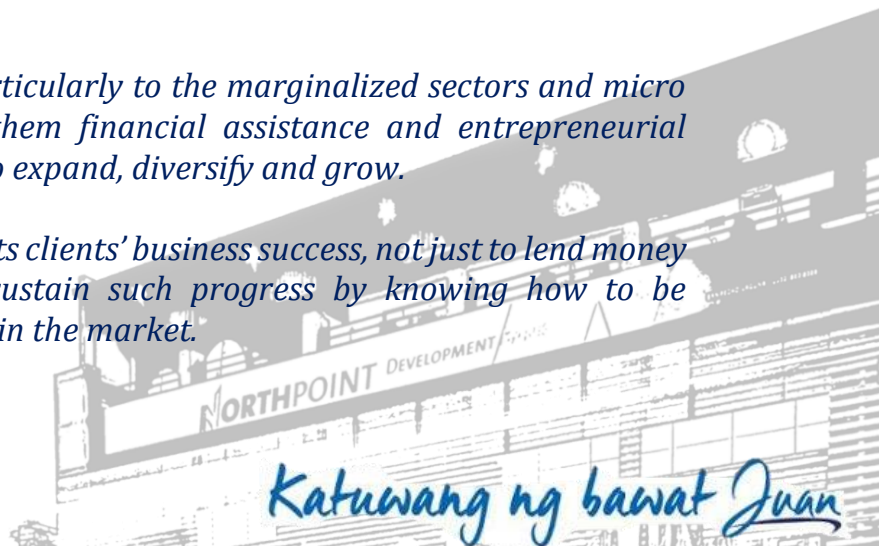
## “KATUWANG NG BAWAT JUAN”

*The Company’s tagline “Katuwang ng bawat Juan” was approved by the Board around August 2019 and by the Intellectual Property Office of the Philippines in the same year.*

*The tagline was created to reinforce the mission/vision of Northpoint in transforming every Filipino to become a productive member of the society, eradicating poverty and creating jobs for his fellow citizens. This is being accomplished by the bank by creating suitable products and services that will help its customers realize their entrepreneurial dream.*

*Northpoint sees itself as a partner, particularly to the marginalized sectors and micro and small entrepreneurs, providing them financial assistance and entrepreneurial advice as they thrive their businesses to expand, diversify and grow.*

*Northpoint wants to be pivotal part to its clients’ business success, not just to lend money but to really help them grow and sustain such progress by knowing how to be continuously relevant and competitive in the market.*



# Future of Northpoint – Sustainable Growth & Expansion

*Northpoint is currently operating with a branch in Urdaneta City, Pangasinan, twenty eight (28) Branch-lite Units (BLUs), and its head office at San Pedro, Laguna. Its main areas of operation are in NCR, Central Luzon and Region V, with Vigan in Ilocos Sur and Ligao in Albay as the farthest. Product offerings are mainly focused on micro loans (Php 10,000 to Php 300,000) being offered to MSMEs and deposit taking activities. Other bank products are also being offered such as business loan, multi-purpose loan and variety of deposit products such as Kiddie Savings, Regular Savings, Special Savings and Micro-Savings Deposits.*

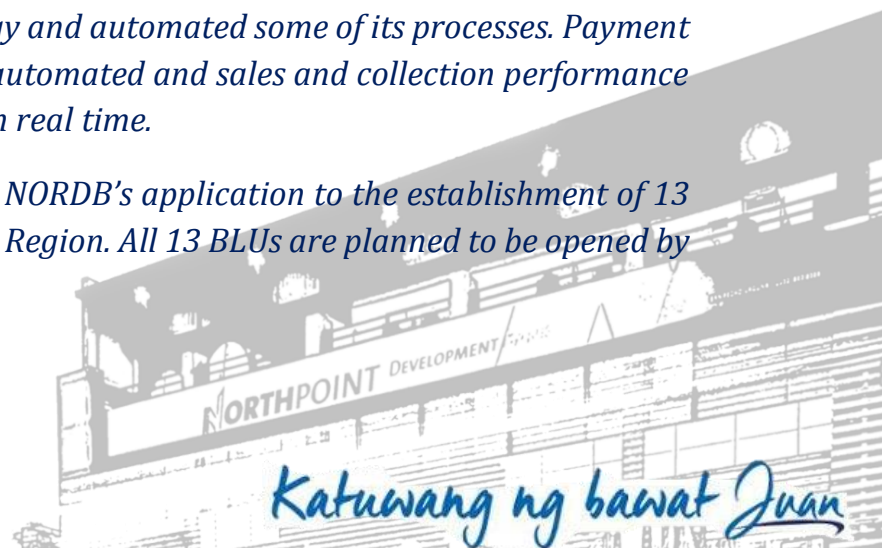
*The bank is facing profound challenges driven by evolving customer expectations, digital advancement, and increasing competition with big banks covering micro lending.*

*Nonetheless, the bank believes it can overcome these challenges by continuously improving its product offerings and expanding its market. Though Northpoint is not yet fully digitalized, it has already started using technology and automated some of its processes, finding new ways to serve its clients better.*

*Bank personnel, especially the front liners, are incessantly being developed to equip them better in dealing with the customers - to be sensitive to their needs, and personalize their transactions; to provide feedback to top management if product and service adjustments are needed to suit the need of its market and offer greater value. In fact, some of the services that we are planning to offer in 2020 are insurance and health benefits to address the request of our existing and potential customers.*

*Northpoint has started using technology and automated some of its processes. Payment notices and financial reports are now automated and sales and collection performance of all its branches can now be viewed in real time.*

*On September 26, 2019, BSP approved NORDB's application to the establishment of 13 BLUs in CALABARZON, Ilocos and Bicol Region. All 13 BLUs are planned to be opened by 2020.*



# PRODUCTS OFFERED

## Microfinance Loan

*Microfinance loans are small loans granted to the marginalized sectors, on the basis of the borrower's cash flow and other loans granted to the poor and low-income households to enable them to raise their income levels and improve their living standards.*

*The rationale behind the variety of our microfinance loan products is to customize them in accordance to the type of business and cash flow that different businesses have. Example of this is the cash inflow of sari-sari stores, barber shops, bakeries and market vendors is different from that of consignment businesses; the former cash flow is daily while the latter could be weekly or monthly, depending on the arrangement between the consignor and consignee. Cash flow is one of the factors the bank is considering in what suitable product to offer.*

*The level of growth is also being considered, manifested by their proof of sales or value of their regular purchases. As businesses grow, expand and diversify, its financial need becomes bigger and the frequency of their repayments also becomes diverse. This is the reason why we have various microfinance products to address the different financial and repayment frequency requirements of clients.*



## Regular Loan

*Regular loans are fully secured term loan granted to qualified individuals, single proprietors, partnership or corporations.*

*Secured loan products are being offered based on the classification of borrower's business (e.g., small, medium or large) as they have different financial requirements and asset value (more than Php 3M to Php 15M for small; more than Php 15M to Php 100M for medium; more than 100M for large)*



*The bigger the business, the bigger and longer the terms are needed. This is the reason why Small Business Loan offers a higher loan amount and longer terms.*

*Multi-purpose loan (MPL) is being offered to employees who are in need of money to cover their emergency expense such as home improvement, utility bills, and medical expense, among others*

## **Savings Account**

*Savings account is an interest-bearing account in which deposits are made for an indeterminate period of time. Deposits and withdrawals are evidenced by deposit and withdrawal slips, respectively, and are recorded in a savings passbook. Various savings accounts are being offered, other than the regular savings that most banks are offering, such as “Micro Savings” and “Kiddie Savings” to encourage the small savers (e.g. micro entrepreneurs, self-employed, professionals) and children to start saving, even in small amount, and obtain the habit of it in preparation for their future.*

*Depositors can also avail the “Special Savings” that offers a competitive interest compared to what is being offered in the market. The bigger and the longer the deposit amount, the higher the interest gain. Time deposit for five (5) years or longer is exempted from the 20% withholding tax.*



# PRESIDENT'S MESSAGE

*I am happy to report the Bank's performance for the year 2019 as it turned out to be the best performance so far since the Bank started its operation.*

*Despite the challenges in 2019, Northpoint was able to turn these challenges into opportunities in its approach to lending through its prudent lending and collection approach.*

*As a result, loan release performance for 2019 ended with 9% growth or PHP 1.86 billion compared to previous year PHP 1.70 billion. Gross Revenue also increased by 13%, from PHP 316 million to PHP 358 million due to Modified Referral Program; Opening of 38 new areas, expanding our market reach; continuous training of all Branch Heads and sales personnel and the creation of Branch Leadership Program that contributed to the increase in average loan release by 4%, from PHP 475,000 to PHP 493,000.*

*In terms of collection, the bank was able to improve its performance through aggressive collection initiatives which include the accreditation of two (2) collection agencies, coupled with strict monitoring due to improved loan systems that enabled the bank to view in real time the collection performance of all branches.*

*Cost-efficiency initiatives were implemented, namely: minimized our legal expense; improved our manpower ratio of support to operations, from 1:4 to 1:5 while maintaining the attrition rate at 3%. Thus, Operating Expenses (OPEX) ratio to gross income decreased from 65% the previous year to 63% this 2019.*

*To further boost the bank's image, we came up with a new tagline "Katuwang ng bawat Juan". Loan system is upgraded, automating payment notification reminder, financial reporting and performance monitoring processes that helped the bank in making immediate adjustment every time there is an imminent lag in performance.*



**CATALINO T. SOLIDUM**  
Director, President & CEO

*As a result, Net Income increased by 82%, from PHP 24.7 million to PHP 45.1 million that led to increase in our total resources by 22% or PHP 154 million and a positive retained earnings of PHP 12 million coming from a negative of PHP 31.6 million the previous year. Consequently, this improved our BSP ranking among thrift banks, in terms of Return On Equity (ROE), from 29<sup>th</sup> to 8<sup>th</sup> place this year. This also led to BSP's approval for Northpoint to open thirteen (13) new branches for the succeeding year.*

*Due to Northpoint's stellar performance, the Board approved last November 2019 a performance bonus to be given to all deserving employees.*

*Processes, systems and internal controls are continuously being improved, filling all current and anticipated gaps with the business unit heads, internal audit and compliance personnel at the forefront.*

*Last but not least, the bank gives importance and appreciates its people. This is why the Office of the President takes an active part in the constant development of all its employees, making sure that everyone is not stagnant and continuously learning through various seminars and workshops that the management believe could help them, both on their career and personal life.*



# FINANCIAL HIGHLIGHTS

MINIMUM REQUIRED DATA	CURRENT YEAR 2019	PREVIOUS YEAR 2018
<b>Profitability (Php)</b>		
Total Net Interest Income	341,912,217.00	304,600,680.00
Total Non-Interest Income	38,489,410.00	12,386,006.00
Total Non-Interest Expenses	224,944,525.00	207,052,575.00
<b>Pre-Provision Profit (Php)</b>		
Allowance for Credit Losses	91,096,774.00	74,668,209.00
Net Income	45,061,374.00	24,693,875.00
<b>Selected Balance Sheet Data (Php)</b>		
Liquid Assets	195,977,091.00	115,748,021.00
Gross Loans	578,627,507.00	488,484,056.00
Total Assets	849,407,972.00	695,264,803.00
Deposits	385,116,205.00	307,615,648.00
Total Equity	412,885,051.00	368,350,794.00
<b>Selected Ratios</b>		
Return on Equity	11.54%	6.92%
Return on Assets	5.83%	3.62%
<b>Others</b>		
Cash Dividends Declared (Php)	-	-
Headcount		
Officers	17	19
Staff	575	558



# CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

	CURRENT YEAR 2019	PREVIOUS YEAR 2018
<b>Tier 1 Capital (Php)</b>		
Paid-up Common stock	400,000,000.00	400,000,000.00
Retained Earnings	(32,319,417.56)	(57,013,291.92)
Undivided Profits	45,061,374.00	24,693,874.17
Deferred tax asset, net of deferred tax liability	(33,793,980.00)	29,245,496.50
<b>Total Core Tier 1 Capital</b>	<b>378,947,976.44</b>	<b>338,435,085.70</b>
<b>Tier 2 Capital (Php)</b>		
Paid-up perpetual and cumulative preferred stock	-	-
General loan loss provision	7,060,633.74	409,272.21
<b>Total Core Tier 2 Capital</b>	<b>7,060,633.74</b>	<b>409,272.21</b>
<b>Gross Qualifying Capital</b>	<b>386,008,610.18</b>	<b>338,844,357.91</b>
Deductions from Tier 1 and Tier 2 capital;	-	-
<b>TOTAL QUALIFYING CAPITAL</b>	<b>386,008,610.18</b>	<b>338,844,357.91</b>
Capital Requirements for <b>Credit Risk</b> ;	701,139,870.47	560,359,030.08
Capital Requirements for <b>Market Risk</b> ;	-	-
Capital Requirements for <b>Operational Risk</b> ;	379,610,349.83	303,058,021.59
<b>Total and Tier 1 Capital Adequacy Ratio</b>	<b>35.72%</b>	<b>39.24%</b>



**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS<sup>1</sup>**

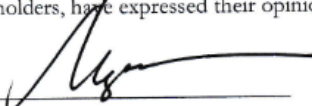
The management of Northpoint Development Bank, Inc. (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework 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.

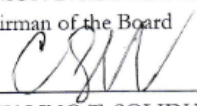
In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease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

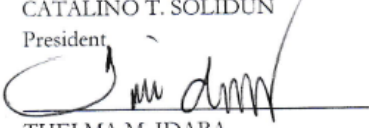
The Board of Directors is responsible for overseeing the Bank's financial reporting process.

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

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

  
\_\_\_\_\_  
RAMON B. MANZANA  
Chairman of the Board

  
\_\_\_\_\_  
CATALINO T. SOLIDUN  
President

  
\_\_\_\_\_  
THELMA M. IDABA  
VP for Treasury

Signed this 10<sup>th</sup> day of June, 2020



**Report of Independent  
Certified Public Accountants  
to Accompany Income Tax Return**

**Punongbayan & Araullo**

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

T +63 2 8988 2288

**The Board of Directors**  
**Northpoint Development Bank, Inc.**  
3F and 4F S.P. Junction Bldg.  
Junction of National Highway and Mabini St.  
Brgy. Nueva, San Pedro, Laguna

We have audited the financial statements of Northpoint Development Bank, Inc. (the Bank) for the year ended December 31, 2019, on which we have rendered the attached report dated April 20, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

**PUNONGBAYAN & ARAULLO**



**By: Maria Isabel E. Comedia**  
Partner

CPA Reg. No. 0092966  
TIN 189-477-563  
PTR No. 8116541, January 2, 2020, Makati City  
SEC Group A Accreditation  
Partner - No. 0629-AR-4 (until Oct. 7, 2022)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-021-2019 (until Sept. 4, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 20, 2020

**Certified Public Accountants**  
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-5

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## Report of Independent Auditors

### The Board of Directors

**Northpoint Development Bank, Inc.**

3F and 4F S.P. Junction Bldg.

Junction of National Highway and Mabini St.

Brgy. Nueva, San Pedro, Laguna

### Report on the Audit of the Financial Statements

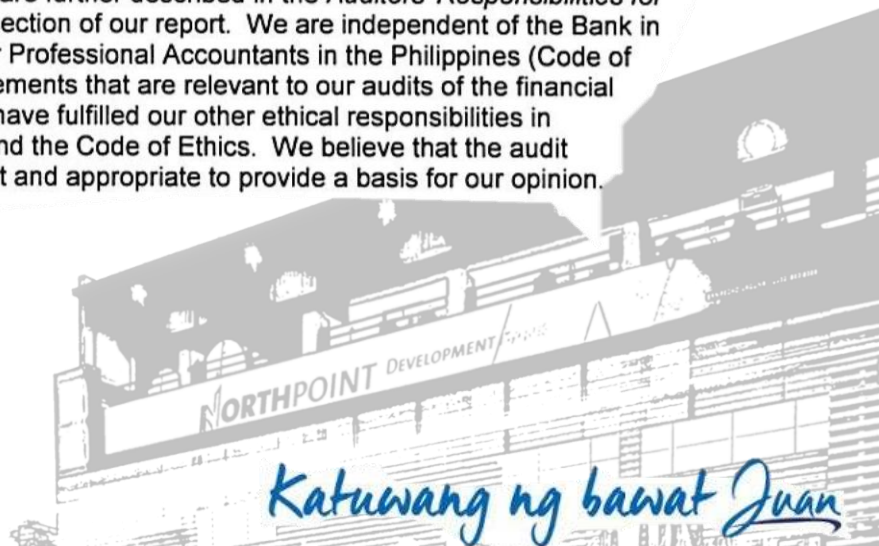
#### *Opinion*

We have audited the financial statements of Northpoint Development Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2019 and 2018, 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (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.



### ***Emphasis of Matter***

We draw attention to Note 23 in the notes to financial statements, which describes the likely negative impact of the business disruption as a result of the corona virus outbreak to the Bank's financial condition and performance after the end of the reporting period. Our opinion is not modified in respect to this matter.

### ***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.

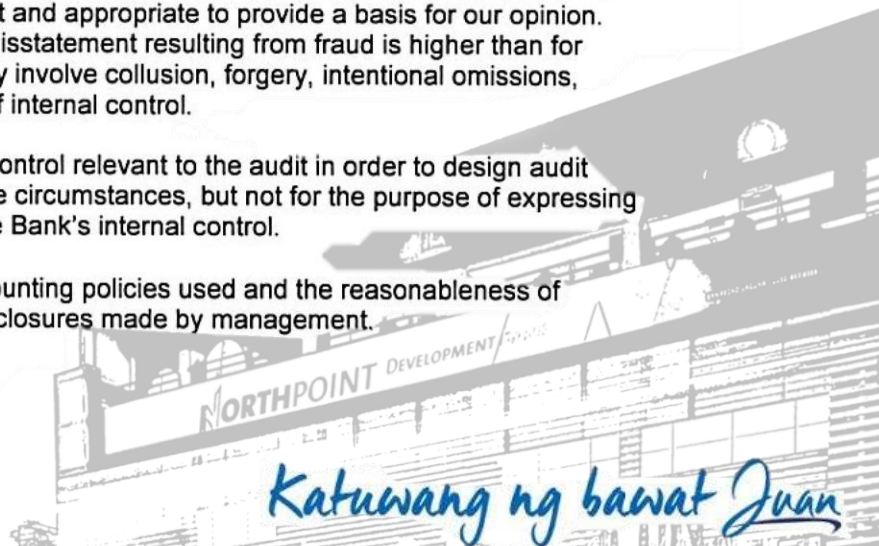
Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***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.

### 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 for the year ended December 31, 2019 required by the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue as disclosed in Notes 24 and 25, respectively, to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

By: **Maria Isabel E. Comedia**  
Partner

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April 20, 2020



**P&A**  
**Grant Thornton**

An instinct for growth™

## **Supplemental Statement of Independent Auditors**

**Punongbayan & Araullo**

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**The Board of Directors**

**Northpoint Development Bank, Inc.**

3F and 4F S.P. Junction Bldg.  
Junction of National Highway and Mabini St.  
Brgy. Nueva, San Pedro, Laguna

We have audited the financial statements of Northpoint Development Bank, Inc. (the Bank) for the year ended December 31, 2019, on which we have rendered the attached report dated April 20, 2020.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has nine stockholders owning 100 or more shares each of the Bank's common stock as of December 31, 2019, as disclosed in Note 17 to the financial statements.

### **PUNONGBAYAN & ARAULLO**

**By: Maria Isabel E. Comedia**  
Partner

CPA Reg. No. 0092966

TIN 189-477-563

PTR No. 8116541, January 2, 2020, Makati City

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April 20, 2020

**Certified Public Accountants**

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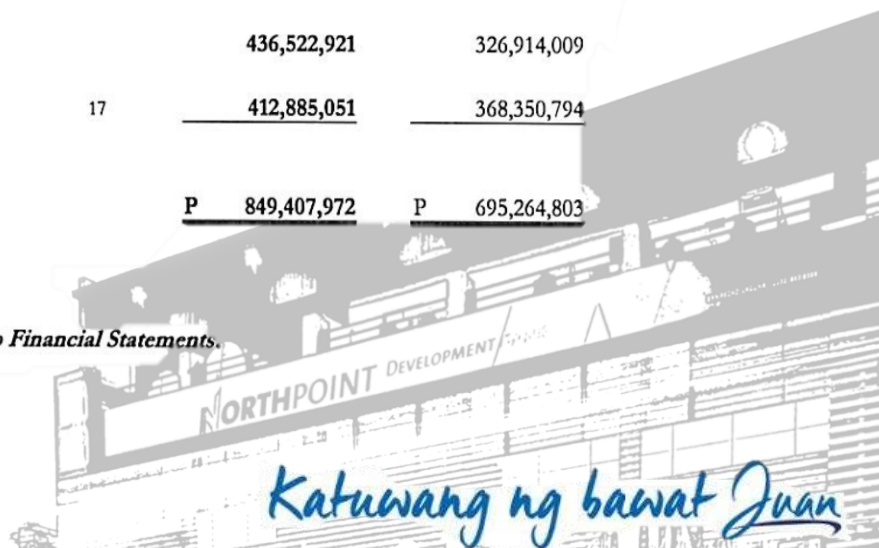
Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-5



**NORTHPOINT DEVELOPMENT BANK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2019 and 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b><u>RESOURCES</u></b>			
CASH AND OTHER CASH ITEMS	8	P 14,718,039	P 7,150,048
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	23,837,157	24,666,953
DUE FROM OTHER BANKS	8	157,421,895	83,931,020
INVESTMENT SECURITIES AT AMORTIZED COST - Net	9	105,842,912	131,629,024
LOANS AND RECEIVABLES - Net	10	454,445,231	376,947,010
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	18,897,361	17,493,110
RIGHT-OF-USE ASSETS - Net	12	20,168,986	-
INVESTMENT PROPERTIES - Net	13	8,457,385	10,118,660
DEFERRED TAX ASSETS - Net	21	33,793,980	29,245,497
OTHER RESOURCES - Net	14	<u>11,825,026</u>	<u>14,083,481</u>
<b>TOTAL RESOURCES</b>		<b><u>P 849,407,972</u></b>	<b><u>P 695,264,803</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
DEPOSIT LIABILITIES	15	P 385,116,205	P 307,615,648
ACCRUED EXPENSES AND OTHER LIABILITIES	16	<u>51,406,716</u>	<u>19,298,361</u>
Total Liabilities		436,522,921	326,914,009
EQUITY	17	<u>412,885,051</u>	<u>368,350,794</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 849,407,972</u></b>	<b><u>P 695,264,803</u></b>

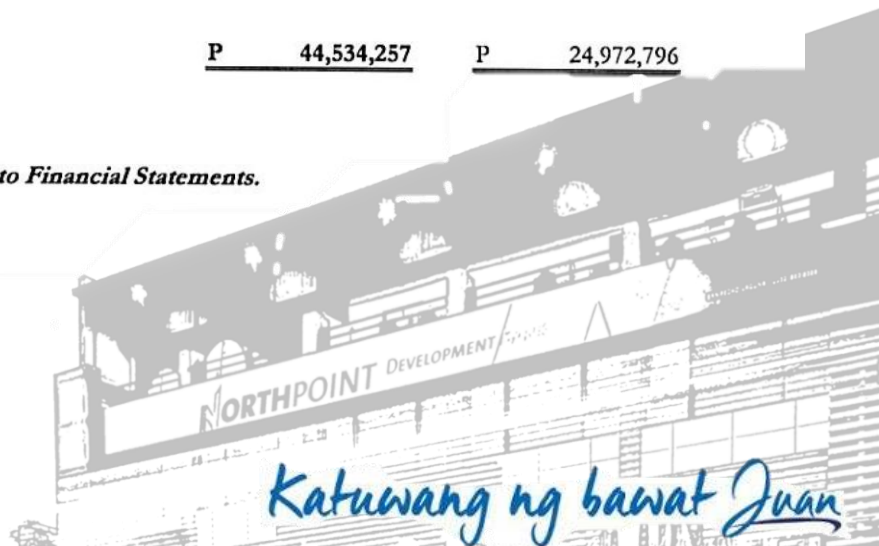
*See Notes to Financial Statements.*



**NORTHPOINT DEVELOPMENT BANK, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b>INTEREST INCOME</b>			
Loans and receivables	10	P 348,615,915	P 308,448,035
Investment securities at amortized cost	9	6,212,520	6,446,793
Due from other banks	8	<u>2,841,911</u>	<u>1,296,434</u>
		357,670,346	316,191,262
<b>INTEREST EXPENSE</b>	12, 15	<u>15,758,129</u>	<u>11,590,582</u>
<b>NET INTEREST INCOME</b>		341,912,217	304,600,680
<b>IMPAIRMENT LOSSES</b>	10	<u>91,096,774</u>	<u>74,668,209</u>
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		250,815,443	229,932,471
<b>OTHER OPERATING INCOME</b>	18	38,489,410	12,386,006
<b>OTHER OPERATING EXPENSES</b>	18	( <u>224,944,525</u> )	( <u>207,052,575</u> )
<b>INCOME BEFORE TAX</b>		64,360,328	35,265,902
<b>TAX EXPENSE</b>	21	( <u>19,298,954</u> )	( <u>10,572,027</u> )
<b>NET INCOME</b>		<u>45,061,374</u>	<u>24,693,875</u>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<b>Item that will not be reclassified subsequently to profit or loss</b>			
Gain (loss) on remeasurement of defined benefit obligation	19	( 753,024 )	398,458
Tax income (expense)	21	<u>225,907</u>	( <u>119,537</u> )
<b>Other Comprehensive Income (Loss)</b>		( <u>527,117</u> )	<u>278,921</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<u>P 44,534,257</u>	<u>P 24,972,796</u>

*See Notes to Financial Statements.*



**NORTHPOINT DEVELOPMENT BANK, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	<u>Capital Stock</u> <u>(see Note 17)</u>	<u>Revaluation</u> <u>Reserves</u> <u>(see Note 2)</u>	<u>Surplus (Deficit)</u> <u>(see Note 2)</u>	<u>Total</u>
Balance as of January 1, 2019	P 400,000,000	P 670,211	( P 32,319,417 )	P 368,350,794
Total comprehensive income (loss) for the year	<u>-</u>	<u>( 527,117 )</u>	<u>45,061,374</u>	<u>44,534,257</u>
 Balance as of December 31, 2019	 <b><u>P 400,000,000</u></b>	 <b><u>P 143,094</u></b>	 <b><u>P 12,741,957</u></b>	 <b><u>P 412,885,051</u></b>
Balance as of January 1, 2018	P 400,000,000	P 391,290	( P 57,013,292 )	P 343,377,998
Total comprehensive income for the year	<u>-</u>	<u>278,921</u>	<u>24,693,875</u>	<u>24,972,796</u>
 Balance as of December 31, 2018	 <u>P 400,000,000</u>	 <u>P 670,211</u>	 <u>( P 32,319,417 )</u>	 <u>P 368,350,794</u>

*See Notes to Financial Statements.*



**NORTHPOINT DEVELOPMENT BANK, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before tax		P 64,360,328	P 35,265,902
Adjustments for:			
Interest received		358,199,177	320,336,135
Interest income	8, 9, 10	( 357,670,346 )	( 316,191,262 )
Impairment losses	10	91,096,774	74,668,209
Depreciation and amortization	11, 12, 13, 14, 18	16,713,709	6,723,385
Interest expense	15	15,758,129	11,590,582
Interest paid		( 9,921,266 )	( 30,065,781 )
Gain on sale of investment properties	13	( 950,959 )	-
Gain on sale of bank premises, furniture, fixtures and equipment	11	( 747,725 )	( 167,599 )
Gain on sale of investment securities at amortized cost	9	( 34,680 )	-
Operating income before changes in resources and liabilities		176,803,141	102,159,571
Increase in loans and receivables		( 168,353,034 )	( 107,061,202 )
Increase in other resources		( 5,454,601 )	( 3,507,027 )
Increase in deposit liabilities		73,228,143	22,171,415
Increase in accrued expenses and other liabilities		12,066,451	324,183
Cash generated from operations		88,290,100	14,086,940
Cash paid for taxes		( 16,175,388 )	( 1,548,645 )
 Net Cash From Operating Activities		<u>72,114,712</u>	<u>12,538,295</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investment securities at amortized cost	9	25,050,000	145,099
Acquisitions of bank premises, furniture, fixtures and equipment	11	( 9,429,633 )	( 3,654,561 )
Proceeds from disposal of investment properties	13	2,612,234	-
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	844,470	387,540
Acquisition of investment securities at amortized cost	9	-	( 146,806 )
 Net Cash From (Used in) Investing Activities		<u>19,077,071</u>	<u>( 3,268,728 )</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of lease liabilities	12	( 9,398,264 )	-
Payment of interest on lease liabilities	12	( 1,564,449 )	-
 Net Cash Used in Financing Activities		<u>( 10,962,713 )</u>	<u>-</u>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>80,229,070</u>	<u>9,269,567</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
Cash and other cash items	8	7,150,048	4,747,977
Due from Bangko Sentral ng Pilipinas (BSP)	8	24,666,953	23,993,123
Due from other banks	8	83,931,020	77,737,354
		<u>115,748,021</u>	<u>106,478,454</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
Cash and other cash items	8	14,718,039	7,150,048
Due from BSP	8	23,837,157	24,666,953
Due from other banks	8	157,421,895	83,931,020
		<u>P 195,977,091</u>	<u>P 115,748,021</u>

**Supplemental Information on Non-cash Financing Activity –**

In 2019, the Bank recognized right-of-use assets and lease liabilities amounting to P20.17 million and P20.85 million, respectively, in the 2019 statement of financial position (see Note 12).

*See Notes to Financial Statements.*

**NORTHPOINT DEVELOPMENT BANK, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE MATTERS**

***1.1 Bank Operations***

Northpoint Development Bank, Inc. (the Bank) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 9, 1956. On March 20, 1998, the Bank was granted authority to operate as a thrift bank by the Bangko Sentral ng Pilipinas (BSP).

The Bank is currently engaged in a private development banking activities, such as but not limited to, granting of loans, whether secured or unsecured; and receiving and maintaining customer deposits in the form of time, savings and current accounts, foreign currency deposits and other forms of deposits in accordance with pertinent law. As of December 31, 2019 and 2018, the Bank has two main branches and 28 branch-lite units.

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 the rules and regulations of the BSP such as those relating to maintenance of reserve requirements and adoption and use of safe and sound banking practices as promulgated by the BSP.

The registered office of the Bank, which is also its principal place of business, is located at 3F and 4F S.P. Junction Bldg., Junction of National Highway and Mabini St., Brgy. Nueva, San Pedro, Laguna.

***1.2 Approval of Financial Statements***

The financial statements of the Bank as of and for the year ended December 31, 2019 (including the comparative financial statements as of and for the year ended December 31, 2018) were authorized for issue by the Bank's Board of Directors (BOD) on April 20, 2020.

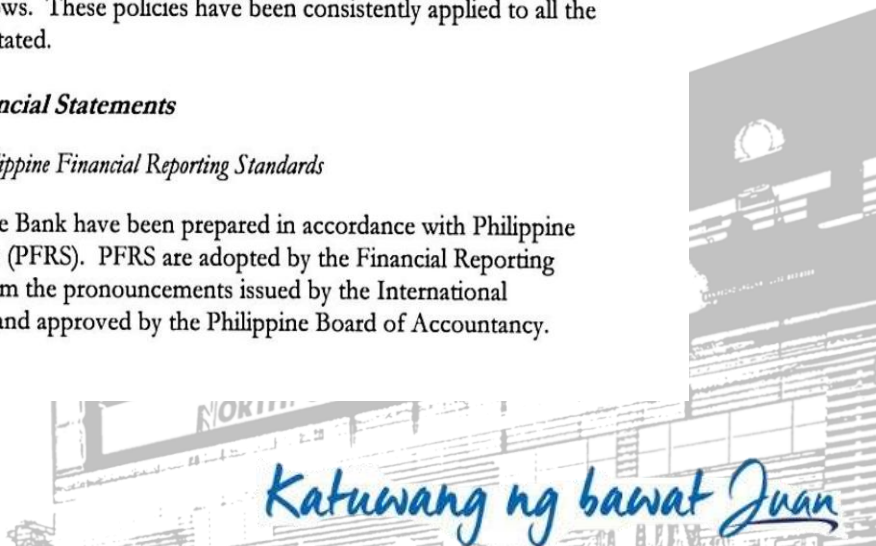
**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***2.1 Basis of Preparation of Financial Statements***

***(a) Statement of Compliance with Philippine Financial Reporting Standards***

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



The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, 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, expenses and other comprehensive income or loss in a single statement of comprehensive income.

The Bank presents a 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.

In 2019, the Bank adopted PFRS 16, *Leases*, which was applied using the transitional relief allowed by the standard. This allowed the Bank not to restate its prior periods' financial statements and did not require the presentation of a third statement of financial position. The impact of the adoption of PFRS 16 at the date of initial adoption, which is at January 1, 2019, resulted to the recognition of Right-of-use Assets and Lease Liabilities (included as part of Accrued Expenses and Other Liabilities) in the statement of financial position. Amortization of right-of-use assets and lease liabilities are also recognized and presented in the statement of comprehensive income as amortization expense and interest expense, respectively [see Note 2.2(a)(iii)].

(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.

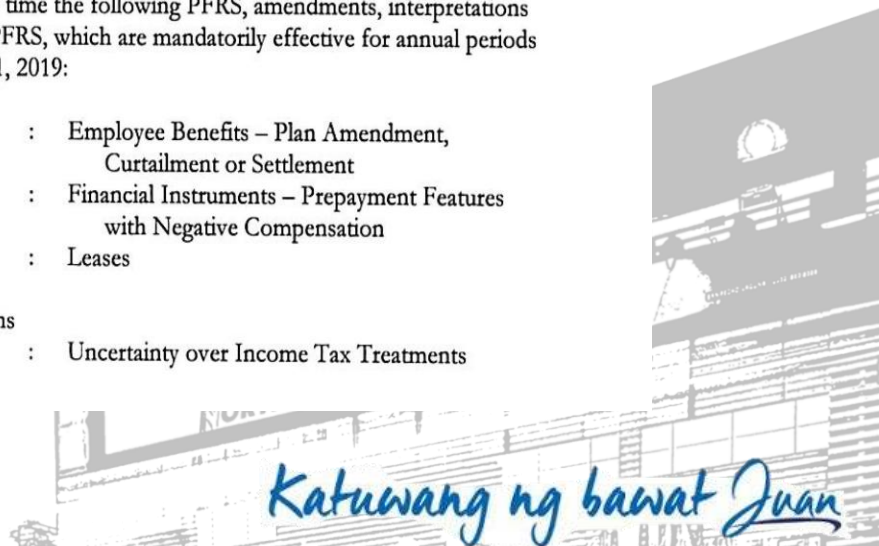
Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

**2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2019 that are Relevant to the Bank*

The Bank adopted for the first time the following PFRS, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

PAS 19 (Amendments)	:	Employee Benefits – Plan Amendment, Curtailment or Settlement
PFRS 9 (Amendments)	:	Financial Instruments – Prepayment Features with Negative Compensation
PFRS 16	:	Leases
International Financial Reporting Interpretations Committee (IFRIC) 23	:	Uncertainty over Income Tax Treatments



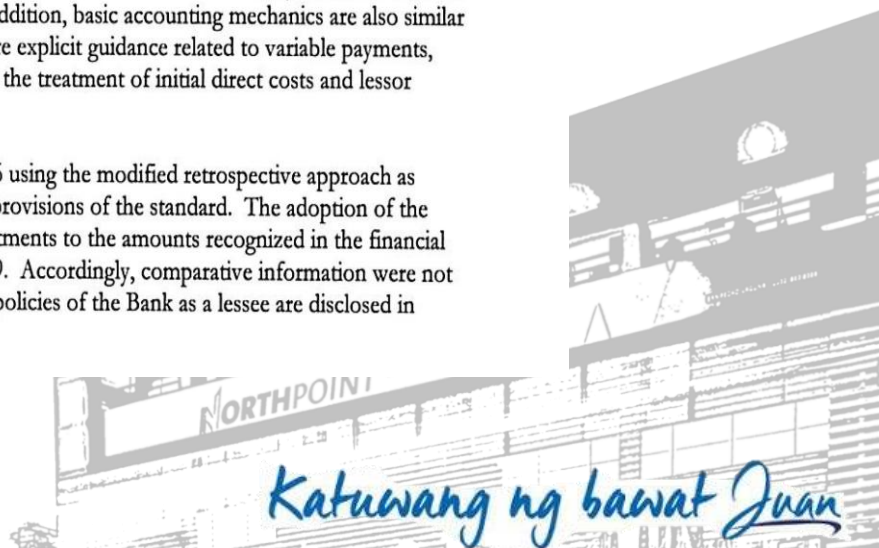
Annual Improvements to PFRS (2015-2017 Cycle)	
PAS 12 (Amendments) :	Income Taxes – Tax Consequences of Dividends
PFRS 23 (Amendments):	Borrowing Costs – Eligibility for Capitalization

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Bank's financial statements.
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation*. The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income. The application of these amendments had no significant impact on the Bank's financial statements.
- (iii) PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and lease liability arising from contract that is, or contains, a lease.

For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Bank has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. The adoption of the standard did not result in adjustments to the amounts recognized in the financial statements as at January 1, 2019. Accordingly, comparative information were not restated. The new accounting policies of the Bank as a lessee are disclosed in Note 2.12(i).

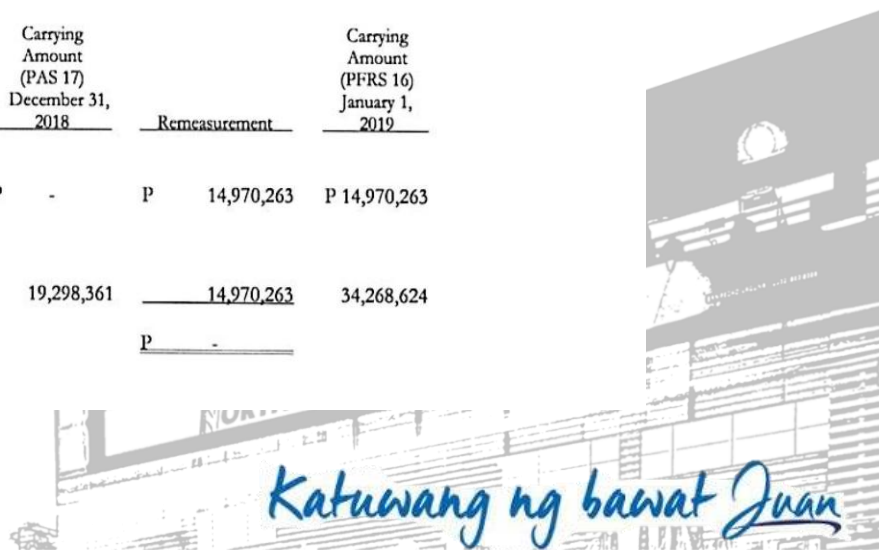


Discussed below are the relevant information arising from the Bank's adoption of PFRS 16 and how the related accounts are measured and presented on the Bank's financial statements as at January 1, 2019.

- a. For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.
- b. The Bank recognized lease liabilities in relation to leases, which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate as of January 1, 2019. The Bank's weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 8.1%.
- c. The Bank has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Bank also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments that existed as at January 1, 2019.
- d. For leases previously accounted for as operating leases with a remaining lease term of less than 12 months, the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.
- e. The Bank has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:
  - i. application of a single discount rate to a portfolio of leases with reasonably similar characteristics; and,
  - ii. reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at January 1, 2019, the Bank has no onerous contracts;

The following table shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at January 1, 2019.

	Note	Carrying Amount (PAS 17) December 31, 2018	Remeasurement	Carrying Amount (PFRS 16) January 1, 2019
<i>Assets –</i>				
Right-of-use assets	c, d	P -	P 14,970,263	P 14,970,263
<i>Liabilities –</i>				
Accrued expenses and other liabilities	b, e	19,298,361	14,970,263	34,268,624
Impact on equity			P -	

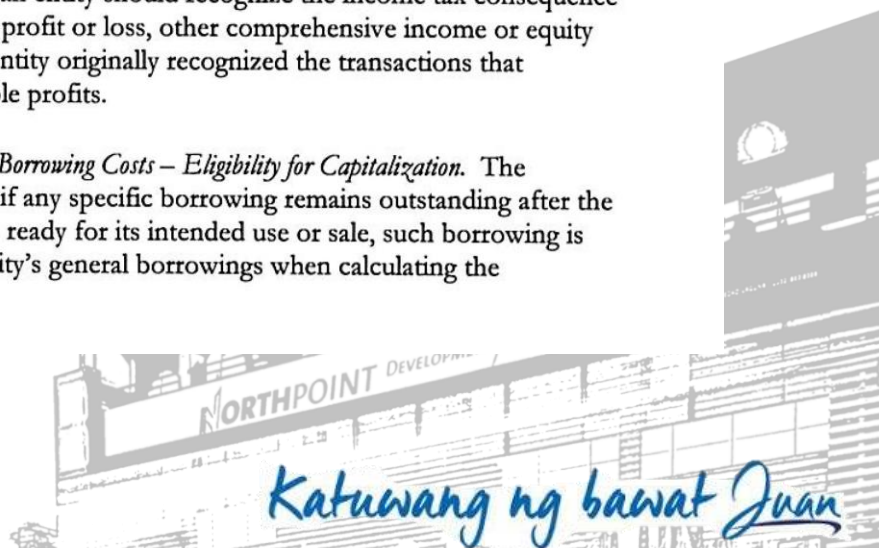


A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 at December 31, 2018 is shown below.

	<u>Notes</u>		
Operating lease commitments, December 31, 2018 (PAS 17)	22.1	P	21,791,244
Recognition exemptions – Leases with remaining term of less than 12 months	2.2(a)(iii)(d)	(	4,918,474)
Operating lease liabilities before discounting			16,872,770
Discount using incremental borrowing rate	2.2(a)(iii)(b)	(	1,902,507)
Lease liabilities, January 1, 2019 (PFRS 16)*	12	P	<u>14,970,263</u>

\*Equal to the right-of-use assets as of January 1, 2019 (see Note 12)

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. The application of this interpretation had no significant impact on the Bank's financial statements.
- (v) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2019, are relevant to the Bank, but had no material impact on the financial statements as these merely clarify existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.



(b) *Effective in 2019 that are not Relevant to the Bank*

The following amendments and improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Bank's financial statements:

PAS 28 (Amendments)	:	Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
Annual Improvements to PFRS (2015-2017 Cycle) PFRS 3 and PFRS 11 (Amendments)	:	Business Combination and Joint Arrangements – Remeasurement of Previously Held Interests in Joint Operation

(c) *Effective Subsequent to 2019 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, 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 significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.
- (ii) Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

### **2.3 Financial Assets**

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. 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.

#### *(a) Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Currently, the only classification of financial assets that is applicable to the Bank is financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's 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 SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They 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 [(see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Receivables, and as part of Other Resources in respect of security deposit, petty cash fund and revolving fund.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of cash, due from BSP and due from other banks with original maturities of three months or less from placement date. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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 be effected only at the beginning of the next reporting period following the change in the business model.

*(b) Recognition of Interest Income*

Interest income on financial assets at amortized cost 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 and those that are purchased or originated credit-impaired assets. For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset. The interest earned is recognized as part of Interest Income account in the statement of comprehensive income.

*(c) Impairment of Financial Assets*

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost and loan commitments issued. No impairment loss is recognized on equity investments.

Recognition of credit losses is no longer dependent on Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

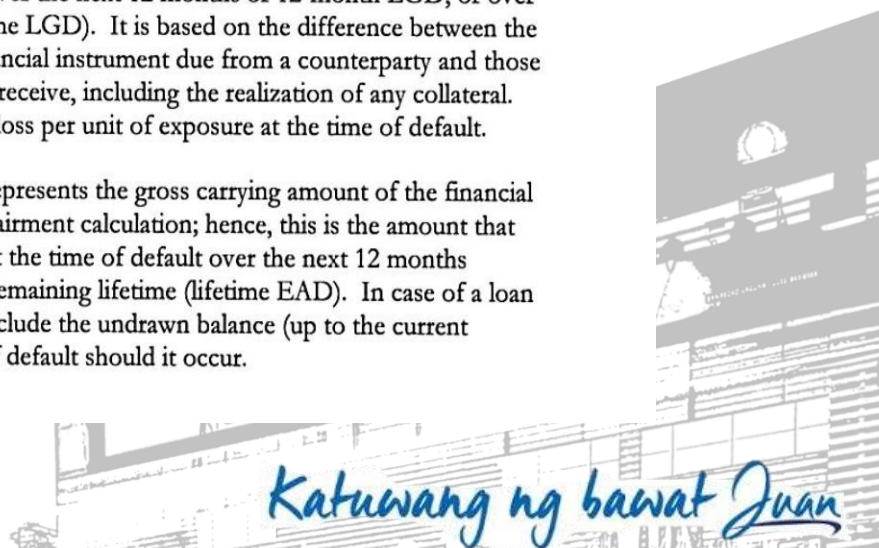
For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.6.

#### *Measurement of ECL*

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

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). 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. It is presented as a percentage loss per unit of exposure at the time of default.
- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.



The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to 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 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 as gain or loss on 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 amount is included in the calculation of cash shortfalls from the existing financial asset that are 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 Modification*

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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 a collateralized borrowing for the proceeds received.

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

Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

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

Depreciation is computed using the straight-line basis over the estimated useful lives of the assets from three to five years.

Leasehold improvements are amortized over the remaining term of the lease or the estimated useful lives of the improvements of ten years, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13). The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and 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 on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### ***2.5 Investment Properties***

Investment properties represent properties acquired by the Bank from defaulting borrowers which are held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer fees and other transaction costs. Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets of ten 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 (see Note 2.13).

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Other Operating Income in the statement of comprehensive income in the year of retirement or disposal.

### ***2.6 Intangible Assets***

Intangible assets include acquired computer software which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition.

Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.13.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

## ***2.7 Other Resources***

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

## ***2.8 Financial Liabilities***

Financial liabilities, which include deposit liabilities and accrued expenses and other liabilities (except tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of comprehensive income.

Financial liabilities are recognized initially at their fair values and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

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.

## ***2.9 Offsetting of Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount considered as a single financial asset or financial liability is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. 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 in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

## ***2.10 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 obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as 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 resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***2.11 Other Operating Income and Expense Recognition***

Other operating income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such a case, the Bank applies PFRS 9 first to separate and measure the part of the contract that is covered by PFRS 9, and then applies PFRS 15 to the residual part of the contract. 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 profit or loss on accrual basis.

The Bank's other operating income arises from rendering of services such as loan processing fees, and service charges and other fees. These revenues are accounted for by the Bank in accordance with PFRS 15. On the other hand, the Bank's revenue from lending activities are measured in accordance with the requirements of PFRS 9 [see Note 2.3(b)].

To determine whether to recognize revenue, the Bank follows a five-step process:

1. identifying the contract with a customer;
2. identifying the performance obligation;
3. determining the transaction price;
4. allocating the transaction price to the performance obligations; and,
5. recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

- (a) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (b) each party's rights regarding the goods to be transferred or performed can be identified;
- (c) the payment terms for the goods to be transferred or performed can be identified;
- (d) 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,
- (e) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised goods to a customer. The transfer of control can occur over time or at a point in time.

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:

- (a) the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- (b) the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (c) 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 transaction price allocated to performance obligation satisfied at a point in time is recognized as revenue when control of goods or services is transferred to the customer. If the performance obligation is satisfied over time, the transaction price allocated to the performance obligation is recognized as revenue as the performance obligation is satisfied.

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) *Loan processing fees* – Loan processing fees which are collected from the borrowers upon release of loans and are recognized ratably over the term of the loan.
- (b) *Service charges and other fees* – Service charges and other fees are recognized when the related service was rendered.

For other income outside the scope of PFRS 15, such as income or loss from assets sold or exchanged which are specifically measured by reference to the fair value of consideration received or receivable by the Bank for services rendered, income is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

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

## **2.12 Leases – Bank as Lessee**

The Bank accounts for its leases as follows:

- (i) *Accounting for Leases in Accordance with PFRS 16 (2019)*

For any new contracts entered into on or after January 1, 2019, 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 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 assess 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 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 (see Note 2.13).

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, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to 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 using the practical expedients. Instead of recognizing a right-of-use asset and 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.

In the statement of financial position, Right-of-use Assets have been presented separately from Bank Premises, Furniture, Fixture and Equipment and Lease liabilities have been presented as part of Accrued Expenses and Other Liabilities.

*(ii) Accounting for Leases in Accordance with PAS 17 (2018)*

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

Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

### ***2.13 Impairment of Non-financial Assets***

Bank premises, furniture, fixtures and equipment, investment properties, computer software, right-of-use assets, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### ***2.14 Employee Benefits***

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized in the below and in the succeeding pages:

#### ***(a) Post-employment Defined Benefit Plan***

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows arising from expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions and the actual return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise.

Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

*(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions (such as the Social Security System) after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

*(c) Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are reported as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

**2.15 Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

**2.16 Income Taxes**

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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 in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

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.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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 relate to the same entity and the same taxation authority.

### ***2.17 Related Party Relationships and Transactions***

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties 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.

### ***2.18 Equity***

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

Revaluation reserves comprise remeasurement of retirement benefit obligation.

Surplus represents all current and prior period results of operations as reported in the profit or loss section of the statements of comprehensive income, reduced by the amounts of dividends declared, if any.

### ***2.19 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 end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.



### 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the 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 ultimately vary from these estimates.

#### *3.1 Critical Management Judgments in Applying Accounting Principles*

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

##### *(a) Determination of Lease Term of Contracts with Renewal and Terminal Options (2019)*

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.

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 a 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 did not include the renewal period as part of the lease term for leases of offices as they are deemed unenforceable due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

The lease term is reassessed if an option is actually 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.

##### *(b) Application of ECL to Financial Assets at Amortized Cost*

The Bank uses loss rate approach to calculate ECL for loans and receivables, while for investment securities at amortized cost, external benchmarking approach was used. The allowance for credit losses is based on the ECL 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 origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the 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 default occurring over the remaining life of the financial instrument.

(c) *Testing the Cash Flow Characteristic 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 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 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 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, 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 such 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 Bank's objective for the business model.

(d) *Distinguishing Investment Properties and Owner-managed Properties*

The Bank determines whether a property qualifies as an investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production, supply process, and in the Bank's banking operation.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

As of the end of the reporting period, the Bank have certain buildings which comprise a portion that is held for rental and other portion is used for operations which were classified by the Bank as Investment Property or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 22.

**3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2019)*

The Bank measures its lease liabilities at 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.

(b) *Estimation of Allowance for ECL*

The Bank provides ECL for financial instruments that have passed the SPPI test [see Note 2.3(a)]. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 10.

(c) *Fair Value Measurement for Financial Instruments*

Fair value measurements for financial assets are generally based on listed or quoted market prices. Where active market quotes are not available, management applies valuation techniques to determine the fair value of financial instruments. 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 end of the reporting period.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software 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, right-of-use assets, investment properties and computer software 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.

Based on management's assessment as of December 31, 2019 and 2018, there is no change in the estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and computer software are presented in Notes 11, 12, 13 and 14, respectively.

(e) *Determination of Net Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Management assessed that the deferred tax assets as at December 31, 2019 and 2018 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). 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 those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses were recognized for bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and computer software for the years ended December 31, 2019 and 2018.

(g) *Determining Fair Value Measurement of Investment Properties*

The Bank's investment properties are composed of land and buildings. In determining the fair value of these assets, the Bank engages the services of professional and qualified internal appraisers applying the relevant valuation in methodologies disclosed in Note 6.3.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in these elements may affect prices and the value of the assets.

The analysis of fair value of investment properties is presented in Note 6.3.

*(b) Valuation of Post-employment Defined Benefit Obligation*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 19.2.

#### **4. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Bank is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Bank's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

##### ***4.1 Bank's Strategy in Using Financial Instruments***

It is the Bank's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD, the Bank is exposed to liquidity risk and interest rate risk inherent in the Bank's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Bank accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Bank maintains liquidity at prudent levels to meet all claims that fall due, the Bank fully recognizes the consequent interest rate risk exposure.

#### ***4.2 Integrated Risk Management Framework***

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the BOD for approval.

#### ***4.3 Risk Responsibilities***

The Bank's over-all risk management strategy and oversight function is handled by the:

*(a) BOD*

The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives.

*(b) President*

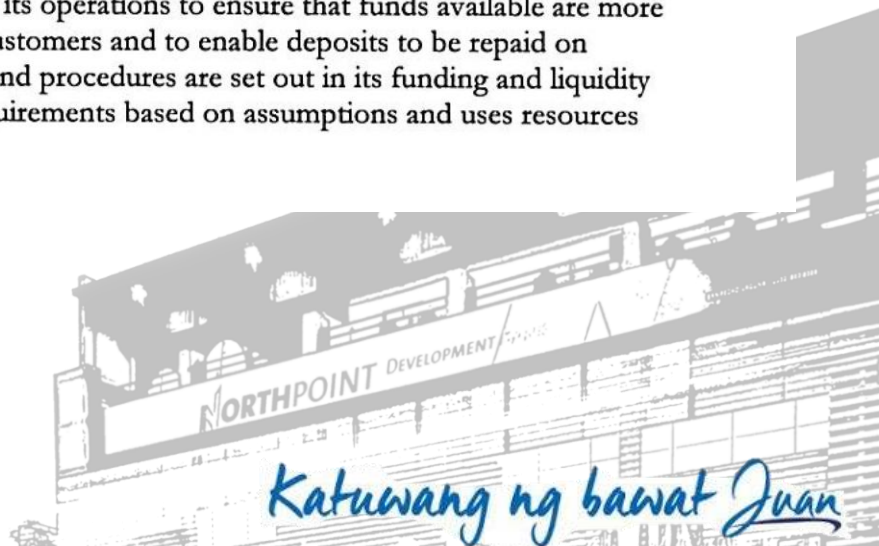
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

#### ***4.4 Liquidity Risk***

Liquidity risk is the potential insufficiency of funds available to meet the demands of the Bank's customers to repay maturing liabilities. The Bank manages liquidity risk by limiting the maturity mismatch between assets and liabilities, and by holding sufficient liquid assets of appropriate quality and marketability.

The Bank recognizes the liquidity risk inherent in its activities, and identifies, measures, monitors and controls the liquidity risk inherent to the members of the Bank which are financial intermediaries.

The Bank's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The Bank's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses resources and liability maturity gap analysis.



The liquidity gap analyses as at December 31, 2019 and 2018 are presented below.

	<u>Due Within One Year</u>	<u>Due Beyond One Year but Within Five Years</u>	<u>Due Beyond Five Years</u>	<u>Total</u>
<b>December 31, 2019</b>				
Financial Assets:				
Cash and other cash items	P 14,718,039	P -	P -	P 14,718,039
Due from BSP	23,837,157	-	-	23,837,157
Due from other banks	157,421,895	-	-	157,421,895
Investment securities at amortized cost - net	-	101,672,312	4,170,600	105,842,912
Loans and receivables - net	412,769,203	41,676,028	-	454,445,231
Security deposits	863,838	5,336,413	-	6,200,251
Petty cash fund	615,000	-	-	615,000
Revolving fund	10,000	-	-	10,000
	<u>610,235,132</u>	<u>148,684,753</u>	<u>4,170,600</u>	<u>763,090,485</u>
Financial Liabilities:				
Deposit liabilities	385,116,205	-	-	385,116,205
Lease liabilities	10,484,763	8,974,401	1,394,165	20,853,329
Accrued expenses	2,673,808	-	-	2,673,808
Accounts payable	2,995,989	-	-	2,995,989
Other liabilities	2,233,492	-	-	2,233,492
	<u>403,504,257</u>	<u>8,974,401</u>	<u>1,394,165</u>	<u>413,962,823</u>
Liquidity gap	<u>206,730,875</u>	<u>139,710,352</u>	<u>2,776,435</u>	<u>349,217,662</u>
<b>Cumulative total gap</b>	<b><u>P 206,730,875</u></b>	<b><u>P 346,441,227</u></b>	<b><u>P 349,217,662</u></b>	<b><u>P -</u></b>
<b>December 31, 2018</b>				
Financial Assets:				
Cash and other cash items	P 7,150,048	P -	P -	P 7,150,048
Due from BSP	24,666,953	-	-	24,666,953
Due from other banks	83,931,020	-	-	83,931,020
Investment securities at amortized cost - net	20,169,638	67,755,394	43,703,992	131,629,024
Loans and receivables - net	342,554,317	34,392,693	-	376,947,010
Security deposits	1,763,158	4,212,839	-	5,975,997
Petty cash fund	615,000	-	-	615,000
	<u>480,850,134</u>	<u>106,360,926</u>	<u>43,703,992</u>	<u>630,915,052</u>
Financial Liabilities:				
Deposit liabilities	200,529,255	107,086,393	-	307,615,648
Accrued expenses	2,888,154	-	-	2,888,154
Accounts payable	2,618,501	-	-	2,618,501
Other liabilities	1,425,345	-	-	1,425,345
	<u>207,461,255</u>	<u>107,086,393</u>	<u>-</u>	<u>314,547,648</u>
Liquidity gap	<u>273,388,879</u>	<u>( 725,467)</u>	<u>43,703,992</u>	<u>316,367,404</u>
<b>Cumulative total gap</b>	<b><u>P 273,388,879</u></b>	<b><u>P 272,663,412</u></b>	<b><u>P 316,367,404</u></b>	<b><u>P -</u></b>



#### 4.5 Market Risk

The Bank's exposure to market risk is the potential diminution of earnings arising from the movement of market interest rates as well as the potential loss of market value, primarily of its holdings of debt securities and derivatives, due to price fluctuation.

The market risk relevant to the Bank is interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates on Due from BSP and other banks, investment securities at amortized cost, and deposit liabilities that are subject to variable interest rates (see Notes 8, 9 and 15). The volatility in the interest rates of these financial instruments will result in an increase or decrease in the Bank's interest spread, and consequently will affect its financial performance.

The analyses of the Bank's financial assets and financial liabilities as at December 31, 2019 based on the expected interest realization or recognition are as follows:

	<u>Due Within One Year</u>	<u>Due Beyond One Year but Within Five Years</u>	<u>Due Beyond Five Years</u>	<u>Total</u>
<b>December 31, 2019</b>				
Financial Assets:				
Due from other banks	P 157,421,895	P -	P -	P 157,421,895
Investment securities at amortized cost - net	-	101,672,312	4,170,600	105,842,912
Loans and receivables - net	<u>412,769,203</u>	<u>41,676,028</u>	-	<u>454,445,231</u>
	<u>570,191,098</u>	<u>143,348,340</u>	<u>4,170,600</u>	<u>717,710,038</u>
Financial Liabilities –				
Deposit liabilities	<u>385,116,204</u>	-	-	<u>385,116,204</u>
Net position	<u>185,074,894</u>	<u>143,348,340</u>	<u>4,170,600</u>	<u>332,593,834</u>
<b>Cumulative net position</b>	<b>P <u>185,074,894</u></b>	<b>P <u>328,423,234</u></b>	<b>P <u>332,593,834</u></b>	<b>P <u>-</u></b>
<b>December 31, 2018</b>				
Financial Assets:				
Due from other banks	P 83,931,020	P -	P -	P 83,931,020
Investment securities at amortized cost - net	20,169,638	107,288,786	4,170,600	131,629,024
Loans and receivables - net	<u>342,554,317</u>	<u>34,392,693</u>	-	<u>376,947,010</u>
	<u>446,654,975</u>	<u>141,681,479</u>	<u>4,170,600</u>	<u>592,507,054</u>
Financial Liabilities –				
Deposit liabilities	<u>200,529,255</u>	<u>107,086,393</u>	-	<u>307,615,648</u>
Net position	<u>246,125,720</u>	<u>34,595,086</u>	<u>4,170,600</u>	<u>284,891,406</u>
<b>Cumulative net position</b>	<b>P <u>246,125,720</u></b>	<b>P <u>280,720,806</u></b>	<b>P <u>284,891,406</u></b>	<b>P <u>-</u></b>

The Bank's exposure to interest rate risk pertains to the fluctuations in interest rates of its financial instruments. To minimize the possible adverse effects of these fluctuations on the Bank's profit or loss, only placements with interest rates that are within the prevailing market rates are pursued. Placements with interest rates, which are significantly higher or lower than the prevailing market rates, are not prioritized by the Bank following the concept of risk and return trade-off.

The following table below illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates as at December 31, 2019 and 2018. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

	<u>Observed Volatility Rates</u>		<u>Impact of Increase</u>		<u>Impact of Decrease</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Profit Before Tax</u>	<u>Equity</u>	<u>Profit Before Tax</u>	<u>Equity</u>
<b>December 31, 2019</b>						
Cash and cash equivalents	+1.71%	-1.71%	P 2,902,770	P 2,031,939	(P 2,902,770)	(P 2,031,939)
Investment securities at amortized cost	+3.55%	-3.55%	1,738,557	1,216,989	( 1,738,557)	( 1,216,989)
Deposit liabilities	+1.71%	-1.71%	( 7,486,916)	( 5,240,841)	7,486,916	5,240,841
			<b>(P 2,845,589)</b>	<b>(P 1,991,913)</b>	<b>P 2,845,589</b>	<b>P 1,991,913</b>
<b>December 31, 2018</b>						
Cash and cash equivalents	+1.66%	-1.66%	P 1,757,920	P 1,230,544	(P 1,757,920)	(P 1,230,544)
Investment securities at amortized cost	+1.08%	-1.08%	1,407,095	984,967	( 1,407,095)	( 984,967)
Deposit liabilities	+1.66%	-1.66%	( 6,810,514)	( 4,767,360)	6,810,514	4,767,360
			<b>(P 3,645,499)</b>	<b>(P 2,551,849)</b>	<b>P 3,645,499</b>	<b>P 2,551,849</b>

Management assess that the impact of interest rate risk on the 2018 financial statements are not significant.

In addition, the Bank has no long-term borrowings with variable or fixed interest rates as at December 31, 2019 and 2018.

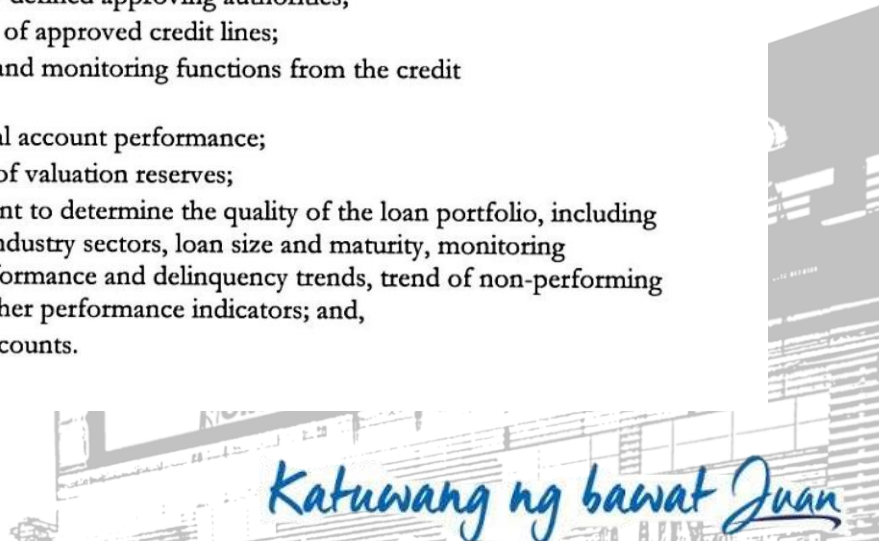
#### 4.6 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The following tools, among others, are used by the Bank in identifying, assessing and managing credit risk:

- Established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;
- Periodic monitoring of individual account performance;
- Regular review of the adequacy of valuation reserves;
- Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size and maturity, monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, and other performance indicators; and,
- Close monitoring of remedial accounts.



#### **4.6.1 Credit Risk Measurement**

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) consumer, which include microfinance loans; (b) corporate, which generally are commercial loans; and (c) investment in debt securities that are measured at amortized cost.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such the credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as Standard & Poor's) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

#### **4.6.2 Expected Credit Loss Measurement Inputs**

Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

##### **(a) Significant Increase in Credit Risk**

The Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition, through assessments of the change in risks of default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information, as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower, and other factors that are counterparty-specific. Certain qualitative criteria are also being considered by the Bank in assessing significant increase in credit risk (SICR). These are but not limited to: actual or expected short-term delays in payments which is normally not later than 30 days, extension to the terms granted, previous arrears within the last 12 months and significant adverse changes in business, financial and/or economic conditions in which the borrowers operate (e.g., calamities requiring BSP relief program).

A '3-stage' impairment model has been adopted by the Bank based on changes in credit quality since initial recognition of the financial asset [see Note 2.3(c)]:

- (i) Stage 1 – comprised of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition and includes financial assets that are identified to have 'low credit risk'. For these instruments, the loss allowance is determined based on a 12-month ECL.

- (ii) Stage 2 – comprises of all financial instruments assessed to have SICR subsequent to the initial recognition of the financial assets, though not yet deemed credit-impaired. This also includes those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. Lifetime ECL is recognized for these financial instruments.
- (iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default for each loan portfolio. A lifetime ECL is recognized for all credit-impaired financial assets.

The Bank also considers the quantitative criteria based on the BSP Manual of Regulations for Banks (MORB) Section 143 (Appendix 15), as amended by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9*, in classifying the status of loan.

(b) *Definition of Default and Credit-Impaired Assets*

(i) *Loans and Receivables*

The Bank defines a financial asset as in is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial assets have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower, which include cases of long-term forbearance, borrower's death, or insolvency;
- breach of contract, such as default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- disappearance of active market for that financial asset because of financial difficulties.

The Bank considers a financial asset to be in default when:

- the borrower is more than 30 days past due on its contractual payments;
- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining the PD, EAD, and LGD throughout the ECL calculations of the Bank.

(ii) *Investment in Debt Securities*

Investments in debt securities are assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a “loss event”) and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future event, shall also be considered in estimating the ECL. In making assessment of whether an investment in debt is credit-impaired, the Bank considers the following factors:

- the market’s assessment of creditworthiness as reflected in the bond yields;
- the rating agencies’ assessment of creditworthiness; or,
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness

The disappearance of an active market because a financial institution’s held securities are no longer publicly-traded is not an evidence of impairment. A downgrade of an issuer’s credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free rate).

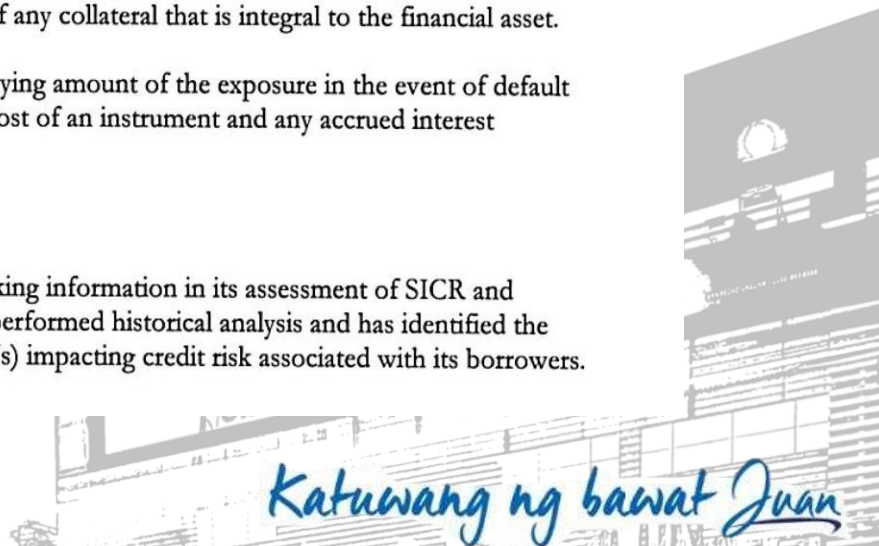
(c) *Key Inputs, Assumptions and Estimation Techniques Used in the Measurement of ECL*

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

- (i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the average loss rates of loans per age bucket.
- (ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.
- (iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable.

(d) *Overlay of Forward-looking Information*

The Bank incorporates forward-looking information in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.



The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

#### 4.6.3 Credit Quality Analysis

The following table sets out information about the credit quality of loans and receivables, investment in securities at amortized cost. As of December 31, 2019 and 2018, there are no POCI financial assets in the Bank's financial statements.

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans and receivables</b>				
Performing:				
Current	P 349,067,178	P -	P -	349,067,178
Past due	-	99,642,336	-	99,642,336
Non-performing:				
Past due	-	-	85,660,338	85,660,338
Items in litigation	-	-	27,790,413	27,790,413
Other receivables	1,326,787	126,295	419,552	1,872,641
Expected credit loss allowance	(350,393,965)	(99,768,631)	(113,870,310)	(564,032,906)
	(10,142,846)	(13,416,964)	(86,027,865)	(109,587,675)
Carrying amount	<b>P 340,251,119</b>	<b>P 86,351,667</b>	<b>P 27,842,445</b>	<b>P 454,445,231</b>
<b>Investment securities at amortized cost</b>				
Grades AAA to B : Current	P 106,456,718	P -	P -	P 106,456,718
Expected credit loss allowance	(613,806)	-	-	(613,806)
Carrying amount	<b>P 105,842,912</b>	<b>P -</b>	<b>P -</b>	<b>P 105,842,912</b>
	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans and receivables</b>				
Performing:				
Current	P 317,275,334	P -	P -	P 317,275,334
Non-performing:				
Past due	-	-	154,764,241	154,764,241
Other receivables	1,535,565	10,000	881,811	2,427,376
Expected credit loss allowance	(318,810,899)	(10,000)	(155,646,052)	(474,466,951)
	(7,826,530)	-	(82,693,412)	(97,519,942)
Carrying amount	<b>P 310,984,369</b>	<b>P 10,000</b>	<b>P 65,952,640</b>	<b>P 376,947,009</b>
<b>Investment securities at amortized cost</b>				
Grades AAA to B : Current	P 132,308,661	P -	P -	P 132,308,661
Expected credit loss allowance	(679,632)	-	-	(679,632)
Carrying amount	<b>P 131,629,024</b>	<b>P -</b>	<b>P -</b>	<b>P 131,629,024</b>

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

*a. Due from BSP and Other Banks*

The credit risk for Due from BSP and other banks is considered negligible, since the counterparties are reputable banks. Due from other banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under Republic Act (RA) No. 9576, *Amendment to Charter of PDIC*.

*b. Loans and Receivables*

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Loans consist of a large number of customers in various geographical areas.

The carrying amount of loans and receivables as at December 31, 2019 and 2018, are presented under Note 10.

*c. Investment in securities at amortized cost*

The Bank's investment securities are with the government and large corporations whose exposure to credit risk is not deemed significant given that counterparties are rated at B to AAA, based on S&P ratings.

*d. Other Financial Assets*

The Bank is not exposed to significant credit risk on its security deposits, petty cash fund and revolving fund, with an aggregate amount of P6.8 million and P6.6 million as at December 31, 2019 and 2018, respectively, since the Bank expects these to be recovered in the normal course of business.

#### **4.6.4 Concentration of Credit Risk**

Excessive concentration of lending poses undue risk on the Bank's asset quality.

The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring.

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk (gross of allowance for impairment) as at December 31, 2019 and 2018 are shown in the succeeding pages.

	<u>Due from BSP and Other Banks</u>	<u>Loans and Receivables</u>	<u>Security Deposits</u>	<u>Investment in Securities at Amortized Cost</u>	<u>Total</u>
<b>2019</b>					
Financial intermediaries	P 181,259,052	P -	P -	P -	P 181,259,052
Wholesale and retail; repair of motor vehicles and motorcycles	-	377,128,466	-	30,015,411	407,143,877
Real estate	-	334,658	-	39,630,086	39,964,744
Manufacturing	-	37,791,039	-	-	37,791,039
Accommodation and food service	-	36,802,735	-	-	36,802,735
Electricity, gas, steam, and airconditioning supply	-	536,346	-	29,756,324	30,292,670
Service	-	14,056,544	-	7,054,897	21,111,441
Transportation and storage	-	16,209,248	-	-	16,209,248
Information and communication	-	6,365,363	-	-	6,365,363
Water supply, sewage, waste management and remedial	-	8,647,341	-	-	8,647,341
Agriculture, fishing, and forestry	-	5,007,691	-	-	5,007,691
Administration and support service	-	4,541,603	-	-	4,541,603
Construction	-	4,479,252	-	-	4,479,252
Human health and social work	-	1,479,047	-	-	1,479,047
Professional, scientific and technical	-	1,783,453	-	-	1,783,453
Mining and quarrying	-	645,832	-	-	645,832
Art, entertainment and recreation	-	705,089	-	-	705,089
Others	-	47,519,192	6,200,251	-	53,719,450
	<b>P 181,259,052</b>	<b>P 564,032,906</b>	<b>P 6,200,251</b>	<b>P 106,456,718</b>	<b>P 857,948,927</b>



	Due from BSP and Other Banks	Loans and Receivables	Security Deposits	Investment in Securities at Amortized Cost	Total
<b>2018</b>					
Financial intermediaries	P 108,597,973	P -	P -	P 146,805	P 108,744,778
Wholesale and retail; repair of motor vehicles and motorcycles	-	316,780,911	-	30,267,071	347,047,982
Real estate	-	214,524	-	59,556,645	59,771,169
Manufacturing	-	31,298,624	-	-	31,298,624
Accommodation and food service	-	30,891,878	-	-	30,891,878
Electricity, gas, steam, and airconditioning supply	-	521,230	-	29,589,277	30,110,507
Service	-	13,092,515	-	7,041,040	20,133,555
Transportation and storage	-	15,771,186	-	-	15,771,186
Information and communication	-	5,876,172	-	5,028,186	10,904,358
Water supply, sewage, waste management and remedial	-	5,058,474	-	-	5,058,474
Agriculture, fishing, and forestry	-	5,580,411	-	-	5,580,411
Administration and support service	-	4,794,066	-	-	4,794,066
Construction	-	2,775,041	-	-	2,775,041
Human health and social work	-	1,473,132	-	-	1,473,132
Professional, scientific and technical	-	1,292,219	-	-	1,292,219
Mining and quarrying	-	300,621	-	-	300,621
Art, entertainment and recreation	-	270,740	-	-	270,740
Others	-	38,475,208	5,975,997	-	44,451,204
	<u>P 108,597,973</u>	<u>P 474,466,952</u>	<u>P 5,975,997</u>	<u>P 131,629,024</u>	<u>P 720,669,946</u>

#### 4.6.5 Allowance for Expected Credit Losses

The following table show the reconciliation of the loss allowance for ECL on loans and receivables at the beginning and end of 2019 and 2018.

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers</b>				
Balance at January 1	P 7,826,530	P -	P 89,140,789	P 96,967,319
Transfers to:				
Stage 1	884	-	( 884)	-
Stage 2	( 97,073)	115,365	( 18,292)	-
Stage 3	( 8,205,757)	-	8,205,757	-
Net remeasurement of loss allowance	10,323,435	4,304,406	19,750,697	34,378,538
New financial assets originated	7,446,713	8,981,130	49,068,552	65,496,395
Derecognition of financial assets	( 7,151,941)	-	( 1,682,431)	( 8,834,372)
Write-offs	-	-	( 78,763,362)	( 78,763,362)
Balance at December 31	<u>P 10,142,791</u>	<u>P 13,400,901</u>	<u>P 85,700,826</u>	<u>P 109,244,518</u>
<b>Other receivables</b>				
Balance at January 1	P -	P -	P 552,623	P 552,623
Net remeasurement of loss allowance	-	-	( 44,170)	( 44,170)
New financial assets originated	55	16,063	330,850	346,968
Derecognition of financial assets	-	-	( 512,264)	( 512,264)
Balance at December 31	<u>P 55</u>	<u>P 16,063</u>	<u>P 327,039</u>	<u>P 343,157</u>

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Debt investment securities at amortized cost</b>				
Balance at January 1	P 679,637	P -	P -	P 679,637
Reversal of impairment	( 65,831)	-	-	( 65,831)
<b>Balance at December 31</b>	<b>P 613,806</b>	<b>P -</b>	<b>P -</b>	<b>P 613,806</b>
	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers</b>				
Balance at January 1	P 8,895,090	P 36,277,905	P 61,199,372	P 106,372,367
Transfers to:				
Stage 1	619	-	( 619)	-
Stage 3	( 8,405,194)	( 12,474,322)	20,879,516	-
Net remeasurement of loss allowance	8,517,877	4,685,415	16,213,438	29,416,730
New financial assets originated	7,464,143	-	38,201,652	45,665,795
Derecognition of financial assets	( 8,220,233)	( 7,580,798)	( 8,442,110)	( 24,243,141)
Write-offs	( 425,772)	( 20,908,200)	( 38,910,460)	( 60,244,432)
<b>Balance at December 31</b>	<b>P 7,826,530</b>	<b>P -</b>	<b>P 89,140,789</b>	<b>P 96,967,319</b>
<b>Other receivables</b>				
Balance at January 1	P 100	P 265	P 1,000,011	P 1,000,376
Transfers to:				
Stage 3	( 1,500)	( 300)	1,800	-
Net remeasurement of loss allowance	1,400	175	( 475,841)	( 474,266)
New financial assets originated	-	-	59,950	59,950
Derecognition of financial assets	-	( 140)	( 33,297)	( 33,437)
<b>Balance at December 31</b>	<b>P -</b>	<b>P -</b>	<b>P 552,623</b>	<b>P 552,623</b>
<b>Debt investment securities at amortized cost</b>				
Balance at January 1	P 683,077	P -	P -	P 683,077
Reversal of impairment	( 3,440)	-	-	( 3,440)
<b>Balance at December 31</b>	<b>P 679,637</b>	<b>P -</b>	<b>P -</b>	<b>P 679,637</b>

#### 4.6.6 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of loans and receivables in 2019 and 2018 contributed to the changes in the allowance for ECL.

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers</b>				
Balance at January 1	P 317,275,334	P -	P 171,208,722	P 488,484,056
Transfers to:				
Stage 1	88,416	-	( 88,416)	-
Stage 2	( 926,997)	1,135,287	( 208,290)	-
Stage 3	( 9,357,532)	-	9,357,532	-
New financial assets originated	339,570,939	114,974,291	64,938,298	519,483,528
Derecognition of financial assets	( 297,582,982)	-	( 51,597,570)	( 349,180,552)
Write-offs	-	-	( 80,159,525)	( 80,159,525)
<b>Balance at December 31</b>	<b>P 349,067,178</b>	<b>P 116,109,578</b>	<b>P 113,450,751</b>	<b>P 578,627,507</b>
<b>Other receivables</b>				
Balance at January 1	P 1,535,565	P 10,000	P 881,811	P 2,427,376
New financial assets originated	338,671	116,295	380,512	835,478
Derecognition of financial assets	( 547,449)	-	( 842,764)	( 1,390,213)
<b>Balance at December 31</b>	<b>P 1,326,787</b>	<b>P 126,295</b>	<b>P 419,559</b>	<b>P 1,872,641</b>
<b>Debt investment securities at amortized cost</b>				
Balance at January 1	P 132,308,661	P -	P -	P 132,308,661
Derecognition of financial assets	( 25,015,320)	-	-	( 25,015,320)
Amortization of premium	( 836,623)	-	-	( 836,623)
<b>Balance at December 31</b>	<b>P 106,456,718</b>	<b>P -</b>	<b>P -</b>	<b>P 106,456,718</b>

	2018			
	Stage 1	Stage 2	Stage 3	Total
<b>Receivables from customers</b>				
Balance at January 1	P 334,364,146	P 66,388,099	P 68,106,987	P 468,859,232
Transfers to:				
Stage 1	62,890	-	( 62,890)	-
Stage 3	( 13,916,430)	( 14,148,034)	28,064,464	-
New financial assets originated	306,220,020	-	121,693,266	427,913,286
Derecognition of financial assets	( 295,116,388)	( 16,860,623)	( 3,209,655)	( 315,186,666)
Write-offs	( 14,338,904)	( 35,379,442)	( 43,383,450)	( 93,101,796)
Balance at December 31	<u>P 317,275,334</u>	<u>P -</u>	<u>P 171,208,722</u>	<u>P 488,484,056</u>
<b>Other receivables</b>				
Balance at January 1	P 1,225,147	P 128,243	P 1,134,115	P 2,487,505
Transfers to:				
Stage 3	( 1,500)	( 526)	2,026	-
New financial assets originated	491,576	10,000	66,620	568,196
Derecognition of financial assets	( 179,658)	( 127,717)	( 320,950)	( 628,325)
Balance at December 31	<u>P 1,535,565</u>	<u>P 10,000</u>	<u>P 881,811</u>	<u>P 2,427,376</u>
<b>Debt investment securities at amortized cost</b>				
Balance at January 1	P 129,795,099	P -	P -	P 129,795,099
New financial assets originated	146,806	-	-	146,806
Derecognition of financial assets	( 145,099)	-	-	( 145,099)
Amortization of discount	2,511,855	-	-	2,511,855
Balance at December 31	<u>P 132,308,661</u>	<u>P -</u>	<u>P -</u>	<u>P 132,308,661</u>

#### 4.6.7 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security.

As of December 31, 2019 and 2018, the Bank's total secured loans and receivables amounted to P12.7 million and P12.3 million, respectively [see Note 25(d)]. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2019 and 2018.

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

As of December 31, 2019 and 2018, the Bank has not recognized any properties arising from foreclosures in settlement of loan account (see Note 13).

There were no changes in the Bank's collateral policies in 2019 and 2018.

#### 4.6.8 Modifications of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to customer loans (see Note 10).

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets.

#### **4.6.9 Write-offs**

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include cessation of enforcement activity, and where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Bank may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2019 and 2018 amounted to P60.2 million and P93.1 million, respectively. The Bank still seeks to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

#### **4.7 Operational Risk**

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operational risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures, and an effective assurance and internal audit function.

#### **4.8 Anti-Money Laundering Controls (AMLC)**

The Anti Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001. It was subsequently amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Together with the Terrorism Financing Prevention and Suppression Act which was passed in June 2012 by virtue of RA No. 10168, these laws provide the regulatory framework for the Philippine Anti-Money Laundering and Terrorist Financing Prevention regulations.

Under the AMLA, as amended, the Bank is required to submit Covered Transaction Reports (CTRs). CTRs involve single transactions in cash or other equivalent monetary instruments in excess of P0.5 within one banking day. The Bank is also required to submit STRs to the AMLC in the event that there are reasonable grounds to believe that any amounts processed are the proceeds of money laundering or terrorist financing activities.

The AMLA requires the Bank to safe keep, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including official documents that establish and record their true and full identity. In addition, transactional documents are required to be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be retained for five years after their closure. Meanwhile, all records of accounts with court cases must be preserved until resolved with finality.

On January 27, 2011, BSP Circular No. 706 (the Circular) was implemented superseding prior rules and regulations on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile. In compliance with the risk-based approach mandated by the Circular, the Bank profiles its clients based on their level of risk, specifically, Low, Normal, or High. These risk levels have their corresponding level of due diligence, specifically, Reduced, Average or Enhanced. BSP Circular No. 706 was later amended by BSP Circular No. 950.

The Bank's MLPP is revised annually to ensure that its KYC policies and guidelines are updated. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records prior to account opening. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, a Bank Head's approval is necessary.

The Bank's Chief Compliance Officer, through the Anti-Money Laundering Division, monitors AML/CFT compliance by conducting regular compliance testing of the head office and business units. Results of its AML/CFT activities and compliance monitoring are regularly reported to the AMLCom, Senior Management Committee and the BOD to ensure that all AML/CFT matters are appropriately escalated.

In 2017, the Bank instituted reforms aimed to reinforce its AML/CFT controls. The Bank significantly lowered the thresholds for remittances, required more posting reviews during the day, and strengthened the process for escalation, fraud and unusual transactions. In addition, the Bank has embarked on a re-engineering of its settlements and business center operations, and the consolidation and strengthening of its fraud management framework.

An essential aspect in the prevention of money laundering and terrorist financing is the training of Bank's personnel. In the latter part of 2017 to the first quarter of 2018, the Bank conducted a one-time bank-wide AML Certification training for all its employees with the aid of an external AML expert. Annual AML trainings, classroom and e-learning, are key features of the Bank's regular training program.

In addition to the Bank's existing transaction monitoring system, the Bank has also subscribed to an international watchlist database in 2018 to further strengthen its screening capabilities for client on-boarding and cross-border transactions.

The Bank continuously improved controls over Money Laundering risks and had implemented the necessary enhancements of the on-boarding procedures, risk profiling model, transaction processing and monitoring. Corresponding trainings were provided to equip personnel with the necessary skills to perform the enhanced procedures. On July 31, 2018, the AML Board Committee was created to meet on a monthly basis and provide oversight of AML related activities of the Bank.

## 5. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

Notes	2019		2018		
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values	
<b>Financial Assets</b>					
At amortized cost:					
Cash and other cash items	8	P 14,718,039	P 14,718,039	P 7,150,048	P 7,150,048
Due from BSP	8	23,837,157	23,837,157	24,666,953	24,666,953
Due from other banks	8	157,421,895	157,421,895	83,931,020	83,931,020
Investment in securities at amortized cost - net	9	105,842,912	102,196,851	131,629,024	121,828,574
Loans and receivables - net	10	454,445,231	412,993,307	376,947,010	343,331,713
Security deposits	14	6,200,251	6,200,251	5,975,997	5,975,997
Petty cash fund	14	615,000	615,000	615,000	615,000
Revolving fund	14	10,000	10,000	-	-
		<b>P 763,090,485</b>	<b>P 717,992,500</b>	<b>P 630,915,052</b>	<b>P 587,499,305</b>
<b>Financial Liabilities</b>					
At amortized cost:					
Deposit liabilities	15	P 385,116,205	P 385,116,205	P 307,615,648	P 287,719,771
Lease liabilities	12	20,853,329	20,853,329	-	-
Accrued expenses	16	2,673,808	2,673,808	2,888,154	2,888,154
Accounts payable	16	2,995,989	2,995,989	2,618,501	2,618,501
Other liabilities	16	2,233,492	2,233,492	1,425,345	1,425,345
		<b>P 413,872,823</b>	<b>P 413,872,823</b>	<b>P 314,547,648</b>	<b>P 294,651,771</b>

See Notes 2.3 and 2.8 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

## 6. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and 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 asset 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 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 investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market 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 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.

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

### **(a) *Investment securities at amortized cost***

The fair values of actively traded corporate debt securities are determined based in their market prices quoted in the Philippine Dealing and Exchange Corp. or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

### **(b) *Loans and receivables***

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; hence, categorized within Level 3.

### **(c) *Deposit liabilities***

The estimated fair value of demand deposits with no stated maturity is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Deposit liabilities are categorized within Level 3.

### **(d) *Other financial assets and financial liabilities carried at amortized cost***

For the Bank's other financial assets and financial liabilities carried at amortized cost as at December 31, 2019 and 2018, management considers that the carrying amounts of these financial instruments are equal to or approximate their fair values. Cash and Cash Equivalents, Petty cash fund and Revolving fund, are classified as Level 1 while all other financial instruments are classified as Level 3 of the fair value hierarchy.

### **6.3 Fair Value Measurement and Disclosures for Investment Properties**

As at December 31, 2019 and 2018, the fair value of the investment properties amounting to P18,483,200 and P22,157,299, respectively, are included in level 3.

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by the Bank's internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use.

The fair value of these non-financial assets were determined based on the following approaches:

#### *(i) Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

#### *(ii) Fair Value Measurement for Buildings*

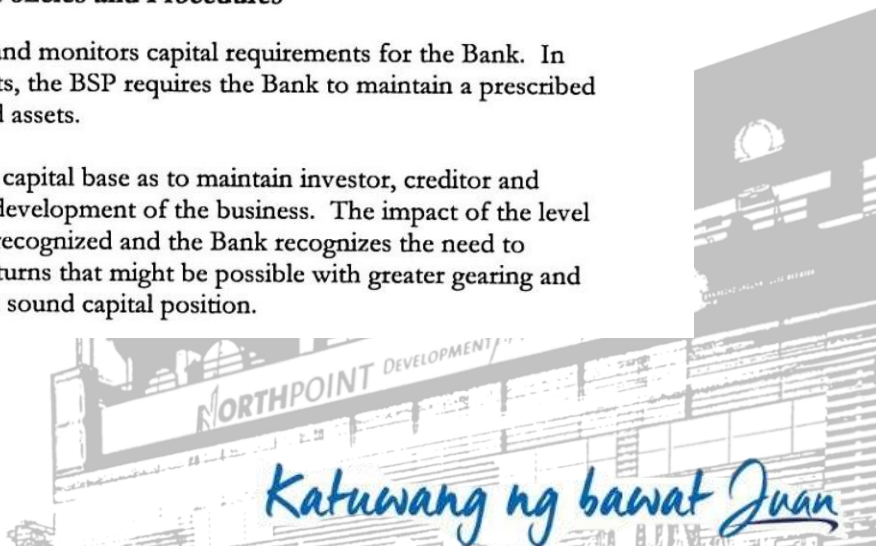
The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence.

## **7. CAPITAL MANAGEMENT POLICIES AND BSP REPORTING COMPLIANCE**

### **7.1 Capital Management Objectives, Policies and Procedures**

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The Bank's policy is to maintain a strong capital base as to maintain 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 also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.



## 7.2 Unimpaired Capital

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to DOSRI (Directors, Officers, Shareholders and Related Interests);
- (c) deferred tax asset or liability; and
- (d) other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board (MB) 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.

In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets or the capital adequacy ratio (CAR). Risk-weighted assets is the sum of credit risk, market risks, and operational risks, computed based on BSP-prescribed formula provided under its circulars.

On January 1, 2012, BSP Circular 688 dated May 26 2010 took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

The Bank's regulatory capital position as at December 31 is presented as follows:

	<u>2019</u>	<u>2018</u>
Tier 1 Capital		
Common stock	P 400,000,000	P 400,000,000
Surplus and reserves	( 32,319,418)	( 52,505,371)
Undivided profits for the year	<u>50,623,584</u>	<u>22,221,006</u>
	418,304,166	369,715,635
Less deduction from Tier 1 capital		
Deferred tax assets	( <u>30,376,501</u> )	( <u>30,268,550</u> )
	387,927,665	339,447,085
Tier 2 Capital		
General loan loss provision	<u>6,966,443</u>	<u>4,570,518</u>
Total Qualifying Capital	<u>P 394,894,108</u>	<u>P 344,017,603</u>
Total Risk Weighted Assets		
Credit risk	P 695,086,033	P 562,937,674
Operational risk	<u>379,610,350</u>	<u>303,058,022</u>
	<u>P1,074,696,383</u>	<u>P 865,995,696</u>

	<u>2019</u>	<u>2018</u>
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	36.74%	39.73%
Total Tier 1 capital expressed as percentage of total risk weighted assets	36.10%	39.20%

### **7.3 Minimum Capital Requirement**

On October 9, 2014, the MB of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P300.00 million. As allowed by the transitory provisions of the circular, the Bank was given a one-year period from the date of effectivity of the circular to submit to the BSP a capital build-up program which would enable the Bank to meet the required minimum capital requirement.

As of December 31, 2019 and 2018, the Bank complied with the required minimum capital requirement.

### **7.4 Minimum Liquidity Ratio**

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as at December 31, 2019 are analyzed below.

Eligible stock of liquid assets	P 197,512,486
Total qualifying liabilities	<u>411,508,228</u>
Minimum Liquidity Ratio	<u><u>48.00%</u></u>

## **8. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include the following components as at December 31:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash		P 14,718,039	P 7,150,048
Due from BSP	13	23,837,157	24,666,953
Due from other banks		<u>157,421,895</u>	<u>83,931,020</u>
		<u><u>P 195,977,091</u></u>	<u><u>P 115,748,021</u></u>

Cash account 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.

Due from BSP represents the aggregate balance of deposit accounts maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims.

Due from other banks generally earn interest based on daily bank deposit rates ranging from 0.1% to 6.25% for 2019 and 2018.

Interest income recognized in the statements of comprehensive income amounted to P2.84 million and P1.30 million in 2019 and 2018, respectively, and is presented as Interest Income on Due from other banks in the statements of comprehensive income.

## 9. INVESTMENT SECURITIES AT AMORTIZED COST

The investment securities at amortized cost consist of the following:

	<u>2019</u>	<u>2018</u>
Cost	P 106,456,718	P 132,308,661
Allowance for impairment	( <u>613,806</u> )	( <u>679,637</u> )
	<u>P 105,842,912</u>	<u>P 131,629,024</u>

The reconciliation of the Investment in securities at amortized cost as at December 31, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	P 131,629,024	P 129,112,022
Amortization of premium	( 836,623 )	2,511,855
Acquisitions	-	146,806
Disposals	( 25,015,320 )	( 145,099 )
Recovery of impairment	<u>65,831</u>	<u>3,440</u>
Balance at end of year	<u>P 105,842,912</u>	<u>P 131,629,024</u>

The breakdown of Investment securities at amortized cost as to maturity is as follows:

	<u>2019</u>	<u>2018</u>
Within one year	P -	P 20,169,638
Beyond one year	<u>105,842,912</u>	<u>111,459,386</u>
	<u>P 105,842,912</u>	<u>P 131,629,024</u>

Annual coupon interest rates on these corporate bonds range from 4.73% to 6.60% both in 2019 and 2018. The total interest income earned on these investments, which comprise of corporate bonds, amounted to P6.21 million and P6.45 million in 2019 and 2018, respectively, and are presented as Interest Income on Investment Securities at amortized cost in the statements of comprehensive income.

In 2019, the Bank recognized a gain of P34,680 on the disposal of Investment securities at amortized cost, and is presented as Gain on sale of investments under Other Operating Income in the 2019 statement of comprehensive income (see Note 18.1). There is no similar transaction that occurred in 2018.

## 10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	<u>2019</u>		<u>2018</u>
Receivables from customers:			
Microfinance loans	P 514,578,217	P	436,264,858
Regular loans	44,232,137		37,550,298
Small and medium-size entities (SME) loans	<u>19,817,153</u>		<u>14,668,900</u>
	578,627,507		488,484,056
Other receivables	<u>1,872,641</u>		<u>2,427,376</u>
	580,500,148		490,911,432
Allowance for impairment	( 109,587,675)	(	97,519,942)
Unearned discounts	<u>( 16,467,242)</u>	(	<u>( 16,444,480)</u>
	<u>P 454,445,231</u>	P	<u>376,947,010</u>

The breakdown of loans and receivables as to maturity is as follows:

	<u>2019</u>		<u>2018</u>
Within one year	P 412,769,203	P	342,554,317
Beyond one year	<u>41,676,028</u>		<u>34,392,693</u>
	<u>P 454,445,231</u>	P	<u>376,947,010</u>

The range of annual effective interest rates, per product type, is shown below.

	<u>2019</u>		<u>2018</u>
Microfinance loans	1.05% - 41.65%		0.71% - 50.22%
Regular loans	1.07% - 47.44%		2.25% - 47.44%
SME loans	1.07% - 7.09%		1.38% - 7.04%

Microfinance loans have terms of 3 to 12 months maturity period. SME and Regular loans, on the other hand, have terms of six months to three years maturity period.

Interest income amounted to P348.62 million and P308.45 million in 2019 and 2018, respectively, is presented under the Interest Income on Loans and receivables in the statements of comprehensive income.

The Bank recognized impairment losses in the statements of comprehensive income amounted to P91.10 million and P74.67 million in 2019 and 2018, respectively.

Other receivables pertain to accrued interest receivable from Investment securities at amortized cost, advances to suppliers and due from employees.

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

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2019 and 2018 are shown below.

	<u>Leasehold Improvements</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Total</u>
December 31, 2019				
Cost	P 9,287,592	P 24,226,869	P 20,243,445	P 53,757,906
Accumulated depreciation and amortization	( 5,159,429)	( 18,010,499)	( 11,690,617)	( 34,860,545)
Net carrying amount	<u>P 4,128,163</u>	<u>P 6,216,370</u>	<u>P 8,552,828</u>	<u>P 18,897,361</u>
December 31, 2018				
Cost	P 8,325,034	P 22,103,030	P 19,617,493	P 50,045,557
Accumulated depreciation and amortization	( 2,023,250)	( 15,194,217)	( 15,334,980)	( 32,552,447)
Net carrying amount	<u>P 6,301,784</u>	<u>P 6,908,813</u>	<u>P 4,282,513</u>	<u>P 17,493,110</u>
January 1, 2018				
Cost	P 7,979,393	P 20,648,952	P 18,809,854	P 47,438,199
Accumulated depreciation and amortization	( 1,211,916)	( 12,163,479)	( 13,744,971)	( 27,120,366)
Net carrying amount	<u>P 6,767,477</u>	<u>P 8,485,473</u>	<u>P 5,064,883</u>	<u>P 20,317,833</u>

A reconciliation of the carrying amounts at the beginning and end of 2019 and 2018 of bank premises, furniture, fixtures and equipment is shown below.

	<u>Leasehold Improvements</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Total</u>
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 6,301,784	P 6,908,813	P 4,282,513	P 17,493,110
Additions	962,558	2,262,849	6,204,226	9,429,633
Disposal	-	( 85,470)	( 11,275)	( 96,745)
Depreciation and amortization charges for the year	( 3,136,179)	( 2,869,822)	( 1,922,636)	( 7,928,637)
Balance at December 31, 2019, net of accumulated depreciation and amortization	<u>P 4,128,163</u>	<u>P 6,216,370</u>	<u>P 8,552,828</u>	<u>P 18,897,361</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 6,767,477	P 8,485,473	P 5,064,883	P 20,317,833
Additions	384,142	1,557,110	1,713,309	3,654,561
Disposal	( 37,858)	( 59,490)	( 122,593)	( 219,941)
Depreciation and amortization charges for the year	( 811,977)	( 3,074,280)	( 2,373,086)	( 6,259,343)
Balance at December 31, 2018, net of accumulated depreciation and amortization	<u>P 6,301,784</u>	<u>P 6,908,813</u>	<u>P 4,282,513</u>	<u>P 17,493,110</u>

As at December 31, 2019 and 2018, the cost of fully depreciated bank premises, furniture, fixtures and equipment that is still currently being used in operations amounts to P17.34 million and P19.60 million, respectively.

Depreciation and amortization charges during the year are presented as part of Other Operating Expenses account in the statements of comprehensive income (see Note 18.2).

The Bank recognized P0.75 million and P0.17 million gain in 2019 and 2018, respectively, related to the disposal of bank premises, furniture and fixtures and equipment. The gain is presented under Other Operating Income in the statements of comprehensive income (see Note 18.1).

Under BSP rules, investment in bank premises, furniture and fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2019 and 2018, the Bank has satisfactorily complied with this BSP requirement.

## 12. LEASES

The Bank has leases certain office spaces for use by its branches and cluster offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement 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.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term upon mutual agreement between the parties. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over branches and cluster offices, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

### 12.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets as at December 31, 2019 and the movements during the period are shown below.

	<u>Notes</u>	
Balance at beginning of year	2.2(a)(iii)	P 14,970,263
Additions		13,716,881
Depreciation and amortization	18.2	( 8,518,158)
Balance at end of year		<b><u>P 20,168,986</u></b>

## 12.2 Lease Liabilities

Lease liabilities amounting to P20.9 million is presented as part of Accrued Expenses and Other Liabilities account in the statement of financial position as at December 31, 2019 (see Note 16).

A reconciliation on the movements of lease liabilities during the period are shown below:

	<u>Notes</u>		
Balance at beginning of year	2.2(a)(iii)	P	14,970,263
Additions			13,716,881
Payments		(	9,398,264)
Interest			<u>1,564,449</u>
Balance at end of year		<b>P</b>	<b><u>20,853,329</u></b>

As at December 31, 2019, management assessed that there no possible future lease termination options nor the Bank had committed to leases which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2019 is as follows:

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 6 years</u>	<u>Total</u>
Lease payments	P 11,901,299	P 6,587,469	P 2,339,471	P 1,140,000	P 1,500,000	P 23,468,239
Finance charges	( 1,416,536)	( 667,357)	( 264,622)	( 160,553)	( 105,835)	( 2,374,910)
Net present values	<b>P 10,484,763</b>	<b>P 5,920,112</b>	<b>P 2,074,842</b>	<b>P 979,447</b>	<b>P 1,394,165</b>	<b>P 20,853,329</b>

## 12.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.

The expenses relating short-term leases amounted to P5.85 million and is presented as Occupancy under Other Operating Expense in the 2019 statement of comprehensive income (see Note 18.2).

At December 31, 2019, the Bank is committed to short-term leases, and the total commitment at that date is P5.23 million.

## 12.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P13.3 million in 2019. Interest expense in relation to lease liabilities amounted to P1.56 million and is presented as part of Interest Expense in the 2019 statement of comprehensive income.

### 13. INVESTMENT PROPERTIES

The gross carrying amounts and accumulated depreciation of investment properties at the beginning and end of 2019 and 2018 are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2019			
Cost	P 8,457,385	P 181,972	P 8,639,357
Accumulated depreciation	<u>-</u>	<u>(181,972)</u>	<u>(181,972)</u>
Net carrying amount	<u>P 8,457,385</u>	<u>P -</u>	<u>P 8,457,385</u>
December 31, 2018			
Cost	P 10,118,660	P 181,972	P 10,300,632
Accumulated depreciation	<u>-</u>	<u>(181,972)</u>	<u>(181,972)</u>
Net carrying amount	<u>P 10,118,660</u>	<u>P -</u>	<u>P 10,118,660</u>
January 1, 2018			
Cost	P 10,118,660	P 181,972	P 10,300,632
Accumulated depreciation	<u>-</u>	<u>(181,972)</u>	<u>(181,972)</u>
Net carrying amount	<u>P 10,118,660</u>	<u>P -</u>	<u>P 10,118,660</u>

In 2019, the Bank disposed a certain parcel of land with carrying value of P1.66 million resulting in a gain on sale amounting to P0.95 million. The gain on sale of investment properties is recognized as part of Other Operating Income in the 2019 statement of comprehensive income (see Note 18.1). There is no similar transaction that occurred in 2018.

Based on the latest appraisal reports of these properties, fair market value of investment properties amounts to P18.48 million and P22.16 million as at December 31, 2019 and 2018, respectively (see Note 6.3).

### 14. OTHER RESOURCES

This account consists of:

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Security deposits	22.1	P 6,200,251	P 5,975,997
Prepayments		2,404,946	2,499,796
Office supplies		1,651,746	1,569,490
Petty cash fund		615,000	615,000
Computer software - net		396,497	663,410
Prepaid taxes		141,877	2,165,821
Revolving fund		10,000	-
Miscellaneous		<u>404,709</u>	<u>593,967</u>
		<u>P 11,825,026</u>	<u>P 14,083,481</u>

The breakdown of other resources as to maturity is as follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 5,228,278	P 7,444,074
Beyond one year	<u>6,596,748</u>	<u>6,639,407</u>
	<u>P 11,825,026</u>	<u>P 14,083,481</u>

Computer software amortization amounted to P0.27 million and P0.46 million in 2019 and 2018, respectively, and is presented as part of Depreciation and amortization under Other Operating Expenses in the statements of comprehensive income (see Note 18.2). There were no additions to computer software for the years 2019 and 2018.

## 15. DEPOSIT LIABILITIES

As at December 31, 2019 and 2018, deposit liabilities are in the form of savings deposits that bear interests ranging from 1.0% to 8.0% per annum both in 2019 and 2018.

This account consists of:

	<u>2019</u>	<u>2018</u>
Savings deposit	P 19,183,359	P 20,970,753
Time deposit	<u>365,932,846</u>	<u>286,644,895</u>
	<u>P 385,116,205</u>	<u>P 307,615,648</u>

The maturity profile of the Bank's deposit liabilities follow:

	<u>2019</u>	<u>2018</u>
Within one year	P 385,116,205	P 200,529,255
Beyond one year but within five years	<u>-</u>	<u>107,086,393</u>
	<u>P 385,116,205</u>	<u>P 307,615,648</u>

Interest expense incurred amounting to P14.05 million and P11.59 million in 2019 and 2018, respectively, and are recognized as part of Interest Expense in the statements of comprehensive income.

Deposit liabilities include accrued interest payable amounting to P10.17 million and P5.90 million as at December 31, 2019 and 2018, respectively.

Under existing BSP regulations, rural banks are subject to statutory and liquidity reserves equivalent of 3.0% of savings and time deposits (BSP Circular 997 and 1063, Series of 2019).

Liquidity and statutory reserves pertains to Due from BSP amounting to P23.84 million and P24.67 million as at December 31, 2019 and 2018, respectively (see Note 7). The Bank is in compliance with such regulations as at December 31, 2019 and 2018.

## 16. ACCRUED EXPENSES AND OTHER LIABILITIES

This account consists of:

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Lease liabilities	12	P 20,853,329	P -
Income tax payable		7,446,141	-
Unearned income		6,507,080	4,871,616
Accrued taxes and licenses	26(a)	6,249,176	5,555,437
Accounts payable		2,995,989	2,618,501
Accrued other expenses		2,673,808	2,888,154
Retirement benefit obligation	19.2	2,447,701	1,939,308
Others		<u>2,233,492</u>	<u>1,425,345</u>
		<u>P 51,406,716</u>	<u>P 19,298,361</u>

The breakdown of accrued expenses and other liabilities as to maturity is as follows:

	<u>2019</u>	<u>2018</u>
Within one year	P 38,590,449	P 17,359,053
Beyond one year	<u>12,816,267</u>	<u>1,939,308</u>
	<u>P 51,406,716</u>	<u>P 19,298,361</u>

Unearned income pertains to deferred loan processing fees, which were collected upon loan release but are recognized as income over the term of the loan.

The Bank other liabilities consist of unpaid appraisal and registration fees, insurance payable, sundry credits, and other miscellaneous payable to various creditors of the Bank.

## 17. EQUITY

Capital stock consists of the following as at December 31, 2019 and 2018:

	<u>Number of Shares</u>	<u>Amount</u>
Common stock – P100 par value		
Authorized – 9,000,000 shares		
Subscribed	<u>4,000,000</u>	<u>P 400,000,000</u>

As at December 31, 2019 and 2018, the Bank has nine stockholders, owning 100 or more shares each of the Bank's common stock.



## 18. OTHER OPERATING INCOME AND EXPENSES

### 18.1 Other Operating Income

This account is composed of the following:

	Notes	2019	2018
Processing fees		P 27,283,335	P 7,317,588
Recovery on charged-off assets		6,906,692	3,534,298
Gain on sale of investment properties	13	950,959	-
Gain on sale of bank premises, furnitures, fixtures, and equipment	11	747,725	167,599
Gain on sale of investments	9	34,680	-
Others		<u>2,566,019</u>	<u>1,366,521</u>
		<u>P 38,489,410</u>	<u>P 12,386,006</u>

In 2019, the Bank implemented a new policy for fees charged in the processing of loans. Processing fees ranging from P150 to P6,000 and P5,000 to P20,000 is charged for microfinance loans and SME and regular loans, respectively.

In 2018, processing fees are charged at P150 for loan amounts below P15,000 and at a rate of 1.5% for loans above P15,000.

### 18.2 Other Operating Expenses

This account is composed of the following:

	Notes	2019	2018
Compensation and employee benefits	19.1	P 132,633,501	P 123,394,670
Taxes and licenses	26(d)	23,186,748	20,163,913
Depreciation and amortization	11, 12, 13, 14	16,713,709	6,723,385
Fuel and lubricants		9,609,069	9,498,825
Occupancy	12.3, 20.1, 22.1	5,847,475	15,091,185
Stationery and supplies		5,119,753	5,159,897
Communication		4,901,523	4,732,549
Transportation and travel		4,770,224	4,103,740
Repairs and maintenance		4,271,030	4,187,405
Power, light and water		3,367,707	3,131,835
Security and messengerial services		2,223,244	2,080,291
Insurance		1,557,813	1,443,164
Miscellaneous		<u>10,742,729</u>	<u>7,341,716</u>
		<u>P 224,944,525</u>	<u>P 207,052,575</u>

## 19. EMPLOYEE BENEFITS

### 19.1 Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2019	2018
Salaries and wages		P 95,329,125	P 92,144,260
Bonus		13,593,431	7,663,223
Incentives and benefits		12,666,481	13,777,988
Social security cost		9,142,091	8,324,939
Retirement benefit	19.2	484,339	552,514
Others		<u>1,418,034</u>	<u>931,746</u>
	18.2	<u>P 132,633,501</u>	<u>P 123,394,670</u>

Bonus includes 13<sup>th</sup> month pay in 2019 and 2018. Starting 2019, this includes 14<sup>th</sup> month bonuses given by the Bank to its employees.

Others include other allowances given to Bank's employees.

### 19.2 Post-employment Defined Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Bank does not have an established retirement benefit plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (RA No. 7641), which is of the final salary defined benefit type and provides retirement benefit equal to 22.5 days' pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

In accordance with the provisions of the Labor Code, the Bank is required to pay eligible employees at least the minimum regulatory benefit upon retirement, subject to age and service requirements. Since the Bank does not have any formal, trustee Retirement Plan, there are no Trustees yet. Moreover, there are no unusual or significant risk to which the Retirement Obligation exposes the Bank. However, it should be noted that in the event a benefit claim arises under the Retirement Obligation, the benefit shall immediately be due and payable from the Bank.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary in 2019 including the comparative year 2018 [see Note 2.2(a)(i)].

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

	<u>2019</u>		<u>2018</u>
Balance at beginning of year	P 1,939,308	P	1,930,127
Current service cost	484,339		552,514
Interest expense	146,030		110,017
Benefits paid	( 875,000)	(	254,892)
Remeasurements –			
Actuarial losses (gains) arising from:			
Changes in financial assumptions	654,203	(	509,127)
Experience adjustments	417,241		110,669
Changes demographic assumptions	( 318,420)		-
Balance at end of year	<u>P 2,447,701</u>	P	<u>1,939,308</u>

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2019</u>		<u>2018</u>
<i>Reported in profit or loss:</i>			
Current service cost	P 484,339	P	552,514
Interest expense	146,030		110,017
	<u>P 630,369</u>	P	<u>662,531</u>
<i>Reported in other comprehensive loss (income) –</i>			
Actuarial losses (gains) arising from:			
Changes in financial assumptions	P 654,203	(P	509,127)
Changes in demographic assumptions	417,241		-
Experience adjustments	( 318,420)		110,669
	<u>P 753,024</u>	(P	<u>398,458)</u>

The current service cost is presented in the statements of comprehensive income as part of Compensation and employee benefits under Other Operating Expenses (see Note 19.1). The related interest expense is included as part of Interest Expense in the statements of comprehensive income.

Amounts recognized in other comprehensive income are considered as items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	<u>2019</u>		<u>2018</u>
Discount rates	5.22%		7.53%
Expected rates of salary increases	2.00%		2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 30 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment benefit obligation. Other assumptions are based on current actuarial benchmarks and management’s historical experience.

(c) *Explanation of Amounts Presented in the Financial Statements*

The plan exposes the Bank to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the retirement obligation.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

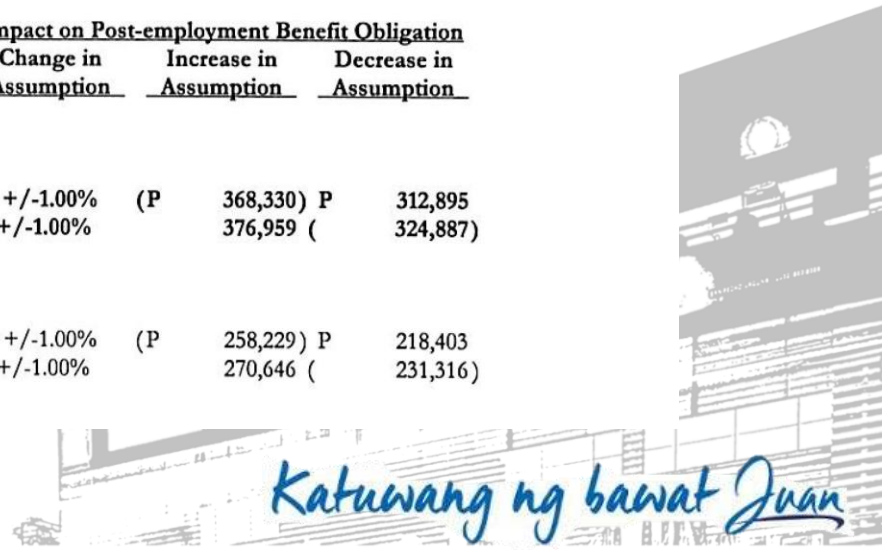
(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, and the timing and uncertainty of future cash flows related to the retirement plan is presented below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2019 and 2018.

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b>December 31, 2019:</b>			
Discount rate	+/-1.00%	(P 368,330)	P 312,895
Salary increase rate	+/-1.00%	376,959	( 324,887)
<b>December 31, 2018:</b>			
Discount rate	+/-1.00%	(P 258,229)	P 218,403
Salary increase rate	+/-1.00%	270,646	( 231,316)



The sensitivity analysis presented on the previous page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Funding Arrangements and Expected Contributions*

The plan is currently unfunded based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>2019</u>	<u>2018</u>
Within one year to five years	P -	P 925,713
More than five years to ten years	<u>1,496,851</u>	<u>1,503,029</u>
	<u>P 1,496,851</u>	<u>P 2,428,742</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13.9 years.

## 20. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of December 31, 2019 and 2018 is presented below.

<u>Related Party Category</u>	<u>Note</u>	<u>2019</u>		<u>2018</u>	
		<u>Amount of Transaction</u>	<u>Outstanding Balance</u>	<u>Amount of Transaction</u>	<u>Outstanding Balance</u>
<b>Related parties under common ownership:</b>					
Grant of loans	20.2	P 28,380,195	P -	P 30,612,084	P -
Purchase of assets	20.1	7,716,490	-	2,690,807	-
<b>Key Management Personnel –</b>					
Compensation	20.3	12,112,791	-	13,933,174	-
Deposit liabilities	20.4	2,583,396	10,468,770	3,210,255	7,885,374

### ***20.1 Purchase of Assets***

In 2019, the Bank purchased motor vehicles and accessories amounting to P6.12 million, P0.86 million, and P0.10 million from Bank of Makati, Motortrade Nationwide Corporation and Motortrade Topline, Inc., respectively. In the same year, the Bank made purchases of supplies from Contrade Intergrated Depot amounting to P0.66 million.

In 2018, the Bank purchased motor vehicles and accessories amounting to P1.5 million and P0.63 million from Bank of Makati and Motortrade Nationwide Corporation, respectively. In the same year, the Bank made purchases of supplies from Contrade Integrated Depot and KNM Signmart amounting to P0.53 million and P0.007 million, respectively. All of these entities are related parties under common ownership.

The Bank does not have any outstanding liability arising from these transactions as at December 31, 2019 and 2018.

### ***20.2 Grant of Loans***

In 2017, the Bank also entered into an agreement with BMI Finance Corporation and Fundline Finance Corp., a related party under common ownership, wherein the Bank will finance various salary loans of their respective employees. These loans are unsecured with a maturity period of six months to three years similar to the terms of regular loans, and with interest rate ranging from 12% to 18%. Based on the assessment of the management and using the Bank's loss rate approach of ECL, it is not necessary to provide impairment loss in 2019 and 2018.

### ***20.3 Key Management Personnel Compensation***

The key management personnel compensation amounted to P12.11 million and P13.93 million as at December 31, 2019 and 2018, respectively, and are shown as part of Compensation and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Note 18.2).

### ***20.4 Bank Deposits from Key Management Personnel***

As of December 31, 2019 and 2018, the Bank's key management personnel have savings deposit accounts which are presented as part of Deposit Liabilities account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors (see Note 15).



## 21. TAXES

The components of tax expense (income) as reported in profit or loss and other comprehensive income (loss) are as follows:

	<u>2019</u>	<u>2018</u>
<i>Reported in profit or loss</i>		
Current tax expense:		
Regular income tax (RCIT)	P 21,792,420	P 7,651,318
Final tax at 20%	<u>1,829,110</u>	<u>1,548,645</u>
	<u>23,621,530</u>	<u>9,199,963</u>
Deferred tax expense (income) relating to origination and reversal of temporary differences	( <u>4,322,576</u> )	<u>1,372,064</u>
	<u>P 19,298,954</u>	<u>P 10,572,027</u>
<i>Reported in other comprehensive income (loss)</i>		
Deferred tax expense (income) relating to origination and reversal of temporary difference	( <u>P 225,907</u> )	<u>P 119,537</u>

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

	<u>2019</u>	<u>2018</u>
Tax on pretax income at 30%	P 19,308,098	P 10,579,771
Adjustment for income subjected to lower tax rates	( 914,555 )	( 774,325 )
Tax effect of non-deductible expenses	<u>905,411</u>	<u>766,581</u>
Tax Expense	<u>P 19,298,954</u>	<u>P 10,572,027</u>

The net deferred tax assets as at December 31 relates to the following:

	Statements of		Statements of Comprehensive Income			
	Financial Position		Profit or Loss		Other Comprehensive Income (Loss)	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Allowance for impairment	P 30,902,242	P 27,202,219	(P 3,700,023)	P 2,955,840	P -	P -
Unearned income	1,952,124	1,461,485	( 490,639 )	( 1,461,484 )	-	-
Right-of-use assets	( 6,050,696 )	-	( 2,555,447 )	-	-	-
Lease liabilities	6,255,999	-	2,350,144	-	-	-
Retirement benefit obligation	<u>734,311</u>	<u>581,793</u>	<u>73,389</u>	<u>( 122,292 )</u>	<u>225,907</u>	<u>( 119,537 )</u>
Deferred Tax Assets – Net	<u>P 33,793,980</u>	<u>P 29,245,497</u>				
Deferred Tax Expense (Income)			<u>(P 4,322,576)</u>	<u>P 1,372,064</u>	<u>P 225,907</u>	<u>(P 119,537)</u>

As of December 31, 2019 and 2018, the Bank has unrecognized deferred tax assets of P2.05 million on allowance for impairment of loans and receivables.

As a result of the adoption of PFRS 16, the movements in profit or loss do not correspond with the movements of the deferred tax assets and liabilities of the right-of-use assets and lease liabilities as of December 31, 2019 and 2018.

The Bank is subject to Minimum Corporate Income Tax (MCIT), which is computed at 2% of gross income, as defined under the tax regulations, or regular corporate income tax, whichever is higher. No MCIT was reported in 2019 and 2018 as the RCIT was higher than MCIT in both years.

The Bank claimed itemized deductions in 2019 and 2018 in computing for its income tax due.

## 22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

### *22.1 Operating Lease Commitments – Bank as Lessee*

The Bank entered into several lease agreements under operating leases covering the office spaces of its branches. The leases have terms ranging from one to five years, with renewal options, and include escalation rate ranging from 5.00% to 10.00%. The future minimum rentals payable under these operating leases as of December 31, 2018 is shown below.

Within one year	P 10,009,352
After one year but not more than five years	<u>11,781,892</u>
	<u>P 21,791,244</u>

The total rentals from these operating leases amounted to P5.85 million and P15.09 million in 2019 and 2018, respectively, are presented as Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 18.2).

Rental deposits amounting to P6.20 million and P5.98 million as at December 31, 2019 and 2018, respectively, are shown as Security deposits under the Other Resources account in the statements of financial position (see Note 14).

### *22.2 Others*

There are other commitments and contingencies that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As at December 31, 2019 and 2018, management is of the opinion that losses from these commitments and contingencies will not have a material effect on the Bank's financial statements.

## 23. EVENT AFTER THE END OF THE REPORTING PERIOD

In December 2019, a novel strain of corona virus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a "public health emergency of international concern." COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension - disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

During the Enhanced Community Quarantine (ECQ), which started on March 17, 2020, the Bank did the following contingency measures: (a) implemented a flexible work schedule (i.e. skeletal workforce, reduced working hours, scheduled work days on some small branches); and, (b) provided its employees/branches with COVID-19 prevention and control measures and equipment (i.e. face masks, face shields, disinfectants/sanitizers, thermal scanners etc.).

The Bank, in compliance with the BSP Memorandum No. 2020-017, Implementing Rules and Regulations of Section 4(a) of RA No. 11469, otherwise known as the “Bayanihan to Heal As One Act”, implemented a 30-day grace period to all loans with principal and/or interest falling due within the ECQ period, without incurring interest on interest, penalties, fees and other charges. The 30-day grace period shall apply to each loan of individuals and entities with multiple loans. The accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date.

Also, at the onset of the ECQ, the Bank did not process any new loan borrowers and new loan releases are only limited to regranting or reavailment of loans to existing borrowers. This resulted to a very minimal impact on the total loan portfolio and income earned by the Bank. In addition to this, the Bank did not experience massive withdrawals from its depositors. The branches continue to maintain reasonable cash in vault to sustain ordinary withdrawals. The Bank also deems that its investments in debt securities are still properly valued as at December 31, 2019 and there was no impairment in value despite the pandemic.

While at this time, the disruption is expected to be temporary, management is cognizant of the fact that its inability to operate the businesses normally over a prolonged period of time could have a negative impact on the Bank’s financial condition and results of operations. The severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, impact on Bank’s customers, employees, and the accessibility and effectiveness of government support programs to a group of customers, all of which are uncertain and cannot be predicted as of the date of the issuance of the Bank’s financial statements. Accordingly, management is unable to reliably estimate yet the impact of the outbreak on the Bank’s financial position and results of operation for future periods.

Nevertheless, the Bank determined that these events are non-adjusting subsequent events. Accordingly, it has no effect on the Bank’s financial statements as at and for the year ended December 31, 2019.

#### **24. OTHER INFORMATION REQUIRED BY THE SECURITIES AND EXCHANGE COMMISSION**

RA No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Company’s financial statements.



## 25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding page are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements.

### a) *Selected Financial Performance Indicators*

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

	<u>2019</u>	<u>2018</u>
Return on average equity:		
<u>Net income (or loss) after income tax</u> Average total equity	<b>11.54%</b>	6.92%
Return on average assets:		
<u>Net income (or loss) after income tax</u> Average total resources	<b>5.83%</b>	3.62%
Net interest margin:		
<u>Net interest income</u> Average interest earning assets	<b>45.07%</b>	45.10%

### b) *Capital Instruments Issued*

As of December 31, 2019 and 2018, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which may include, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

### c) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

	<u>2019</u>		
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
Gross Carrying Amount:			
Microvariant	P 210,714,761	P 96,607,661	P 307,322,422
Micro100	87,908,317	78,793,033	166,701,350
Regular	43,297,874	934,263	44,232,137
Small and medium-sized	8,473,013	9,513,571	17,986,584
Under litigation	-	<u>27,790,413</u>	<u>27,790,413</u>
	<u>350,393,965</u>	<u>213,638,941</u>	<u>564,032,906</u>
Allowance for ECL	( <u>10,142,846</u> )	( <u>99,444,829</u> )	( <u>109,587,675</u> )
Net Carrying amount	<b><u>P 340,251,119</u></b>	<b><u>P 114,194,112</u></b>	<b><u>P 454,445,231</u></b>

	2018		
	Performing	Non-performing	Total
Gross Carrying Amount:			
Microvariant	P 178,297,763	P 61,994,460	P 240,292,223
Micro100	96,377,181	78,308,679	174,685,860
Regular	36,432,517	8,387,451	44,819,968
Small and medium-sized	<u>7,703,438</u>	<u>6,965,462</u>	<u>14,668,900</u>
	318,810,899	155,656,052	474,466,951
Allowance for ECL	( 7,826,530 )	( 89,693,412 )	( 97,519,942 )
Net Carrying amount	<u>P 310,984,369</u>	<u>P 65,962,640</u>	<u>P 376,947,009</u>

d) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of loans as to secured and unsecured (gross of unearned discounts and allowance for impairment) follows:

	2019	2018
Secured	<b>P 12,669,733</b>	P 12,326,414
Unsecured	<u>565,957,774</u>	<u>476,157,642</u>
	<b><u>P 578,627,507</u></b>	<b><u>P 488,484,056</u></b>

e) *Information on Related Party Loans*

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as at December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2019	2018	2019	2018
Total outstanding loans	<b>P -</b>	P -	<b>P -</b>	P -
% of loans to total loan portfolio	<b>0.0%</b>	0.0%	<b>0.0%</b>	0.0%
% of unsecured loans to total DOSRI/ related party loans	<b>0.0%</b>	0.0%	<b>0.0%</b>	0.0%
% of past due loans to total DOSRI/ related party loans	<b>0.0%</b>	0.0%	<b>0.0%</b>	0.0%
% of non-performing loans to total DOSRI/ related party loans	<b>0.0%</b>	0.0%	<b>0.0%</b>	0.0%

f) *Secured Liabilities and Assets Pledged as Security*

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2019 and 2018.

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

The Bank does not have any contingencies and commitments arising from off-balance sheet items as of December 31, 2019 and 2018.

## 26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Following is the supplementary information which is required by the BIR under its RR No.15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *Gross Receipts Tax (GRT)*

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries performing quasi-banking function pursuant to Section 121 of the 1997 Tax Code, as amended.

In 2019, the Bank reported total GRT amounting to P18,806,190 as shown part of Taxes and licenses under Other Operating Expenses in the 2019 statement of comprehensive income [see Note 26(d)]. There were outstanding GRT payables as at December 31, 2019 amounting to P5,069,441 presented as part of Accrued taxes and licenses under Accrued Expenses and Other Liabilities in the 2019 statement of financial position (see Note 16).

GRT is levied on the Bank's lending income, which includes interests and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income.

(b) *Documentary Stamp Tax*

For the year ended December 31, 2019, documentary stamp tax (DST) affixed amounted to P6,050,677. Of this amount, P4,614,498 was charged to clients while the balance of P1,435,879 was for the account of the Bank and accordingly charged to profit or loss [see Note 26(d)].

(c) *Withholding Taxes*

Details of total withholding taxes for the year ended December 31, 2019 are shown below.

Compensation and benefits	P	4,007,865
Expanded		1,206,823
Final		<u>1,709,328</u>
	<b>P</b>	<b><u>6,924,016</u></b>

(d) *Taxes and Licenses*

Details of taxes and licenses in 2019 are as follows:

	<u>Notes</u>		
GRT	26(a)	P	18,806,190
Local taxes and business permits			2,520,444
DST	26(b)		1,435,879
Miscellaneous			<u>424,235</u>
	18.2	<b>P</b>	<b><u>23,186,748</u></b>

(e) *Excise Taxes*

The Bank does not have excise taxes accrued in 2019 since it does not have any transactions subject to excise tax during the year.

(f) *Taxes on Importation*

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2019.

(g) *Deficiency Tax Assessment and Tax Cases*

As at December 31, 2019, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.



**NORTHPOINT DEVELOPMENT BANK**  
**Supplemental Schedule of Financial Soundness Indicators**  
**December 31, 2019 and 2018**

Ratio	Formula	2019	Formula	2018
Current ratio	Total Current Assets divided by Total Current Liabilities	1.45	Total Current Assets divided by Total Current Liabilities	2.23
	Total Current Assets	613,974,572	Total Current Assets	485,916,050
	Divide by: Total Current Liabilities	423,706,654	Divide by: Total Current Liabilities	217,888,308
	Current Ratio	1.45	Current Ratio	2.23
Acid test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities	1.44	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities	2.20
	Total Current Assets	613,974,572	Total Current Assets	485,916,050
	Less: Inventories	-	Less: Inventories	-
	Other Current Assets	5,228,278	Other Current Assets	7,444,074
	Quick Assets	608,746,294	Quick Assets	478,471,976
Divide by: Total Current Liabilities	423,706,654	Divide by: Total Current Liabilities	217,888,308	
Acid test ratio	1.44	Acid test ratio	2.20	
Solvency ratio	Earnings before interest, taxes, depreciation and amortization (EBITDA) divided by Total Debt	0.24	Earnings before interest, taxes, depreciation and amortization (EBITDA) divided by Total Debt	0.50
	EBITDA	96,832,166	EBITDA	53,579,869
	Divide by: Total Debt obligations	405,969,534	Divide by: Total Debt obligations	107,086,393
	Solvency ratio	0.24	Solvency ratio	0.50
Debt-to-asset ratio	Total Liabilities divided by Total Assets	0.51	Total Liabilities divided by Total Assets	0.47
	Total Liabilities	436,522,921	Total Liabilities	326,914,009
	Divide by: Total Assets	849,407,972	Divide by: Total Assets	695,264,803
	Debt-to-asset ratio	0.51	Debt-to-asset ratio	0.47
Debt-to-equity ratio	Total Liabilities divided by Total Equity	0.23	Total Liabilities divided by Total Equity	0.15
	Total Liabilities	96,832,166	Total Liabilities	53,579,869
	Divide by: Total Equity	412,885,051	Divide by: Total Equity	368,350,794
	Debt-to-equity ratio	0.23	Debt-to-equity ratio	0.15
Assets-to-equity ratio	Total Assets divided by Total Equity	0.98	Total Assets divided by Total Equity	0.29
	Total Assets	405,969,534	Total Assets	107,086,393
	Divide by: Total Equity	412,885,051	Divide by: Total Equity	368,350,794
	Asset-to-equity ratio	0.98	Asset-to-equity ratio	0.29
Interest rate coverage ratio	Earnings before interest and taxes (EBIT) divided by Interest expense	5.08	Earnings before interest and taxes (EBIT) divided by Interest expense	4.04
	EBIT	80,118,457	EBIT	46,856,484
	Divide by: Interest expense	15,758,129	Divide by: Interest expense	11,590,582
	Interest rate coverage ratio	5.08	Interest rate coverage ratio	4.04
Return on equity	Net Profit divided by Total Equity	0.11	Net Profit divided by Total Equity	0.07
	Net Profit	45,061,374	Net Profit	24,693,875
	Divide by: Total Equity	412,885,051	Divide by: Total Equity	368,350,794
	Return on equity	0.11	Return on equity	0.07
Return on assets	Net Profit divided by Total Assets	0.11	Net Profit divided by Total Assets	0.23
	Net Profit	45,061,374	Net Profit	24,693,875
	Divide by: Total Assets	405,969,534	Divide by: Total Assets	107,086,393
	Return on assets	0.11	Return on assets	0.23
Net Profit margin	Net Profit divided by Total Revenue	0.13	Net Profit divided by Total Revenue	0.08
	Net Profit	45,061,374	Net Profit	24,693,875
	Divide by: Total Revenue	357,670,346	Divide by: Total Revenue	316,191,262
	Net Profit margin	0.13	Net Profit margin	0.08

# RISK MANAGEMENT FRAMEWORK

*The risk governance framework of NORDB includes policies, supported by appropriate processes and control procedures, designed to ensure identification, aggregation, mitigation and monitoring of risk.*

*The NORDB's risk appetite is clearly conveyed through a risk appetite statement incorporated in the bank policies and procedures and Management Information System. This represents the individual and aggregate level types of risk that the NORDB is willing to assume in order to achieve its business objectives and considering its capability to manage risk.*

## RISK APPETITE AND STRATEGY

*The risk strategy of Northpoint, being a non-complex bank, follows a top-down approach with the Board guiding the management and approving the overall risk strategy and risk appetite after considering all the risks input and recommendations of the management. Risks are being managed through monthly reporting to the Board by concerned department heads about their respective business function performance, which includes challenges and action plan, to ensure acceptable performance*

*The bank is using a "three lines of defense" model to manage risk. The business line function represents the first line of defense, the risk management and compliance functions for the second line of defense and the internal audit function for the third line. In this regard, the Board ensures that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively.*

*Northpoint has identified various risk classifications, such as: Credit, Market and Liquidity, Operational, Information technology (IT) and Compliance risks. The bank is regularly monitoring and continuously improving its risk management on the mentioned risk classes through its various department heads.*

**Credit Risk.** *The bank is following the 5 Cs (character, capacity, capital, collateral, and conditions). The level of risk that Northpoint is willing to assume in terms of our lending operation, considering the fact that we are rendering financial assistance to the most vulnerable sectors (micro entrepreneurs) is up to the fact that borrowers have the capacity to pay based on their assessed net income, good payment history, and sustainable business and market conditions such as the current and future demand of*

*their products or services are enough to support the business. Loan performance is also being monitored to ensure that credit evaluations are effectively being made.*

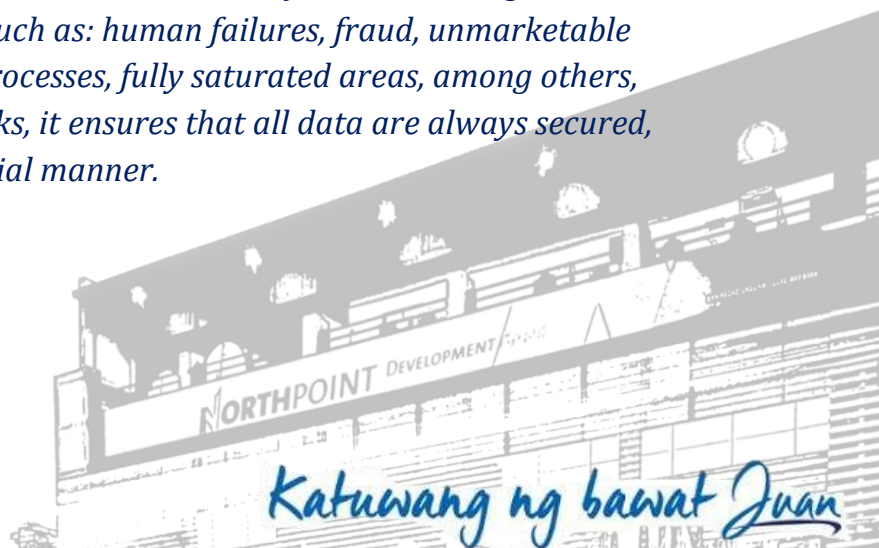
**Liquidity Risk.** *The treasurer regularly apprises the Board regarding NORDB's liquidity profile. Aside from monitoring compliance with the minimum liquidity ratio, liquidity position is monitored using a maturity gap report. Periodic liquidity stress testing is also conducted to evaluate the potential effects of severe plausible scenarios. Contingency Funding Plan is in place which incorporates specific trigger points on when to activate the contingency measures and lists appropriate funding source in case of stress events.*

**Market Risk.** *Exposure to market risk primarily arises from movements in interest rates on loans, deposits in banks, investments in corporate bonds, and deposit liabilities. Changes in loan and deposit interest rates are decided and approved by the Board. Rates are fixed until maturity at levels that provide high net interest margin. The huge spread between rates on loans and deposits gives the Bank a larger buffer for absorbing the impact of potential adverse movements in interest rates.*

*Policy on interest rate setting and pricing is in place. An interest rate repricing gap report is regularly prepared to measure, monitor, and control repricing risk in order to anticipate and effectively respond to interest rate movements and ensure adequacy of margins to support target growth.*

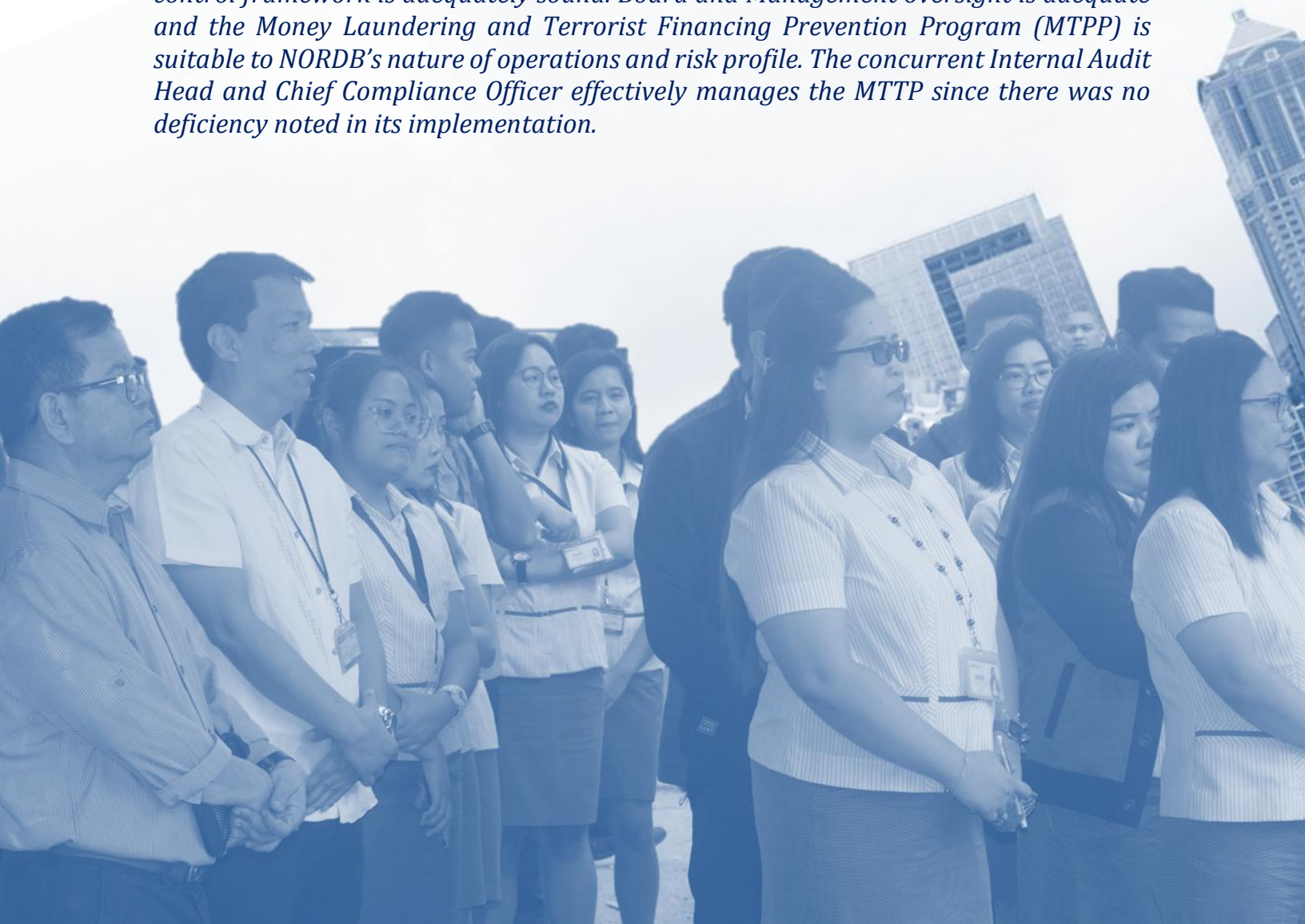
**Compliance Risk.** *The scope of compliance testing generally covers all relevant laws, rules and regulations affecting NORDB. The Audit and Compliance Committee (ACC) is apprised of the results of the compliance testing as well as the status of previous BSP directives and other regulatory requirements. The Chief Compliance Officer (CCO) keeps track of accomplishments in the compliance plan and reports the status to the ACC. Recent issuances relevant to banking and operations are likewise disseminated by the CCO to the Board and employees.*

**Operational Risk.** *The bank doesn't accept risks that could result in a significant loss of its revenue bases. Hence, it ensures that the targets set in the business plan in terms of sales, collection, loan restructuring, filing of collection and fraud cases, and business expansion are all met to have a profitable bottom line. All of these are being monitored on a monthly basis so that challenges such as: human failures, fraud, unmarketable product offerings, faulty operational processes, fully saturated areas, among others, can be resolved immediately. For IT risks, it ensures that all data are always secured, use and shared only in a legal and official manner.*



*In line with the NORDB continuing commitment to contribute in the global fight against money laundering and terrorist financing, the NORDB Money Laundering and Terrorist Financing Prevention Program (or MTPP for brevity) is crafted to ensure that the bank is not utilized by any unlawful element to launder money, finance terrorism or legitimize organized crime fronts. Through the said program, NORDB will be able to effectively implement the provisions of Republic Act (R.A.) No. 9160, otherwise known as the "Anti-Money Laundering Act of 2001" (AMLA), as amended by R.A. Nos. 9194, 10167 and 10365, as provided under Rule 18 of the Revised Implementing Rules and Regulations (RIRR) of the AMLA, as well as R.A. No. 10168 or the Terrorism Financing prevention and Suppression Act of 2012, as provided under Rule 27 of its Implementing Rules and Regulations (IRR), the Monetary Board, in its Resolution No. 334 dated 23 February 2017 approved the following amendments to Part Eight or the Anti-Money Laundering Regulations of the Manual of Regulations for Banks (MORB) and Manual of Regulations for Non-Bank Financial Institutions (MORN BFI) with the Bangko Sentral ng Pilipinas (BSP), NORDB MTPP is in accordance to Circular No. 950 dated 15 March 2017 and Circular No. 1022 dated 26 November 2018, as amended.*

*Overall money laundering and terrorist financing prevention risk management and control framework is adequately sound. Board and Management oversight is adequate and the Money Laundering and Terrorist Financing Prevention Program (MTPP) is suitable to NORDB's nature of operations and risk profile. The concurrent Internal Audit Head and Chief Compliance Officer effectively manages the MTPP since there was no deficiency noted in its implementation.*



## PERFORMANCE ASSESSMENT PROGRAM

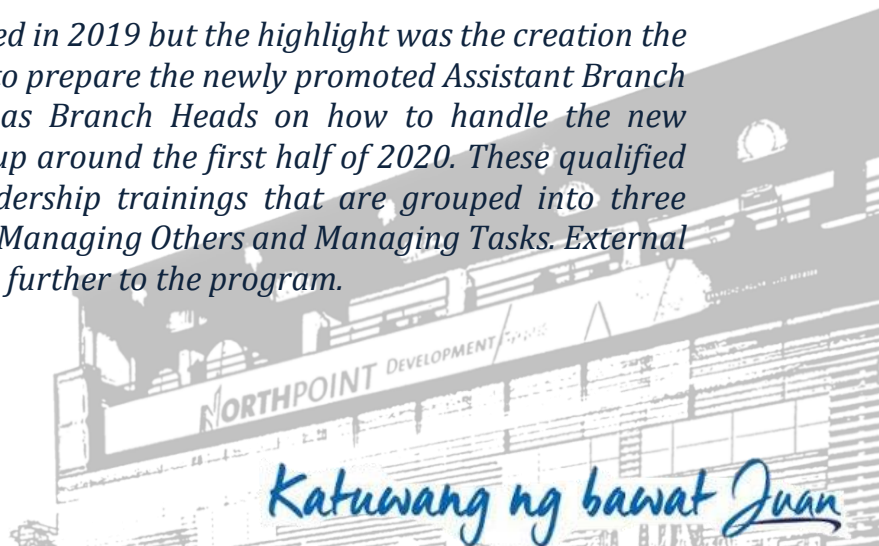
*NORDB has created an internal Performance Management System (PMS) and procedures to determine and measure performance rating of all employees in the company. The PMS is one support system that will enable to know the gaps of the employees on the desired competencies to excel in their performance, thus, consistently maintain a high level of productivity – a result of effort, motivation and a supportive environment.*

*Northpoint Development Bank, Inc expects always to increase productivity from its people. Productivity is translated into profit results, a high level of motivation for excellent achievement and a people proud of their Bank. There is monthly monitoring of the employee's Individual Performance Goal, annual Employee Performance Appraisal System and quarterly review of the Department's business plan to ensure that all employees and Department have continuous improvement.*

## ORIENTATION AND EDUCATION PROGRAM

*Northpoint Development Bank's vision is to enable its employees to gain knowledge, acquire skills, and cultivate the right attitude. The Bank approaches are varied, ranging from developmental to improved programs, ensuring that all its employees are both capable and competent to perform their respective duties. Last 2018, we have conducted 65 trainings involving behavioral, functional, and technical topics.*

*Numerous trainings were also conducted in 2019 but the highlight was the creation the Branch Leadership Training Program to prepare the newly promoted Assistant Branch Heads and Senior Business Advisors as Branch Heads on how to handle the new branches that are scheduled to be set up around the first half of 2020. These qualified individuals will undergo a list of leadership trainings that are grouped into three categories, namely: Managing Oneself, Managing Others and Managing Tasks. External resources were also hired to contribute further to the program.*



*All Newly hired employees are required to attend pre-onboard orientation for them to be knowledgeable about the company's vision, mission and values, to serve as their guide or moral compass in all their work-related situations.*

*Our company is continuously improving its employees' careers through succession and advancement planning modules, to prepare them as they climb the corporate ladder.*

## **RETIREMENT AND SUCCESSION POLICY**

*NORDB has created a succession policy which aims to create a pool of future officers that will serve as successors to those who hold critical positions in the organization, as they part or reach their retirement age. It also identifies and tapped potential leaders in the organization, keeping them motivated and on track within their career path.*

*The NORDB policy also provides procedures and guidelines in the assignment and development of potential successors to incumbent officers. The procedures and guidelines ensure a smooth and efficient process for preparing outstanding employees as they transition to a higher post.*



# REMUNERATION MECHANISM

*As one of the major mediums in motivating employees, and to express the level of recognition on employee's skills, experiences, importance, and productivity, among many others, NORDB made sure that all relevant elements have been considered to come up with a suitable compensation program.*

*Remuneration given to Northpoint personnel is based on various factors, such as: educational attainment, skills, experience, duties and responsibilities and performance; hence compensation varies depending on employees' capabilities and complexity of work. Other factors are also considered such as the bank's financial and economic condition, including competitors' compensation offering, so that the bank will be able to offer a competitive offering or adjustment to both new and existing employees, respectively. In fact, Northpoint has one of the highest incentive programs compared to other players in the microfinance industries.*

*Other type of remuneration is also being provided to encourage people to meet the minimum required performance. Increase in compensation is given too based on the personnel's annual performance. Remuneration methodology of the company is based on three (3) key factors: compliance to labor laws, making sure that statutory compensation and benefits are given; competitiveness, for the purpose of attracting and retaining people; and performance, to recognize and reward deserving personnel.*

*As for the compensation of members of the Board, no compensation is being paid to any director as such, but the directors of the Bank are given reasonable honoraria for attendance at meetings.*



# CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

*This 2019, NORDB supported the Brigada Eskwela program in Gumaca by donating paint supplies and jetmatic water pumps to be used in improving the aesthetic of the school building and to facilitate the sourcing of water from the well. We also supported various fund raising projects such as two (2) fun runs held in Gumaca, in the province of Quezon, for the housing project that will benefit the needy.*

*NORDB also believes that encouraging its employees to engage in corporate social responsibility initiatives will uplift their morale, make them happy, improve their productivity and work engagement, as research shows.*

*Thus, in addition to the bank's vision and mission of improving the lives of the Philippine marginalized sectors through financial inclusion, it is also pushing further to be more socially accountable, not just to itself and its stakeholders, but also to the community at large by engaging into other activities that will bring the highest possible impact economically, socially and environmentally.*



*Katuwang ng bawat Juan*

# CONSUMER PROTECTION

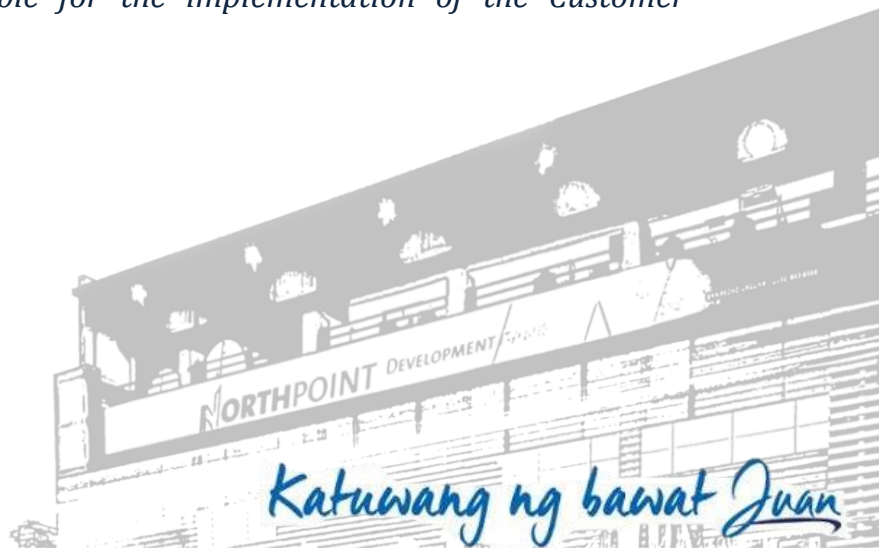
*NORDB bank gives the highest value to its customers, being the lifeblood of the company, making sure that all customers are given a great experience or a good service the least. This is the reason why we are constantly monitoring customers' feedback to ensure that they are more than satisfied with the service they are provided. Concerns or complaints are also being addressed immediately and judiciously. The bank is continuously keeping score of all comments, making sure that we maintain a very good overall customer service rating.*

*A Consumer Assistance Management Policy is in place which guides Management in handling inquiries and complaints. Complaints are handled by the Marketing Support Section Head, who evaluates and acts on issues within the prescribed turnaround time. Status and actions taken are reported monthly, or more frequently as necessary, to the Branch Banking Group Head and Management Committee. A database that scores the details of the complaints, status, and date of receipt and resolution is likewise maintained. There is no known negative publicity or complaint against the Bank or any of its directors and officers.*

*The Board of Directors is responsible for granting effective recourse to its customer. Pursuant thereto, the Board:*

- 1. Approve the Customer Assistance policies and procedures;*
- 2. Approve Risk Assessment Strategies relating to effective recourse by the customer;*
- 3. Ensure compliance with Customer Assistance policies and procedures;*
- 4. Provide adequate recourse devoted to Customer Assistance; and*
- 5. Review the Customer Assistance policies at least annually*

*The Senior Management is responsible for the implementation of the Customer Assistance policies and procedure.*

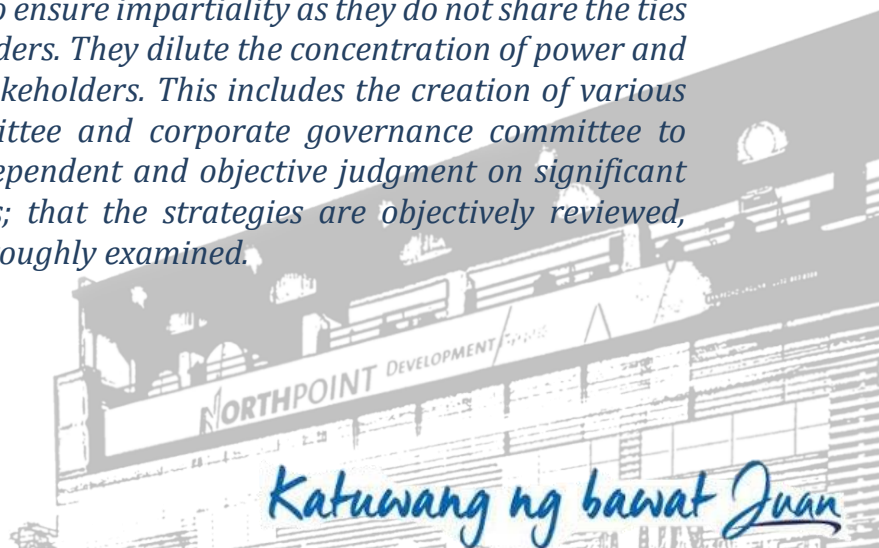


*Fair treatment ensures that financial costumers are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. These include general rules, such as those addressing ethical staff behavior, acceptable selling practices as well as regulating products and practices where customers are more likely to be offered services that are inappropriate for their circumstances. Consumers are given clear, sufficient, reliable, comparable and timely information before, during and after sale. All financial, promotional material should be accurate, honest, understandable and not misleading.*



*NORDB sees to it that the interests of the bank's many stakeholders are balanced and duly governed. It believes that the key to long-term sustainability and success largely depends on how the bank behaves, which could be expressed in all of its dealings, not only with its stockholders and employees, but also with customers, environment and the community at large. Thus, the bank has continuously expressed its behavior throughout the years on the following:*

- 1. To ensure accurate and transparent reporting, it hired an external independent auditor to ensure that our financials are declared and reported appropriately, free of fraud, and strictly compliant.*
- 2. To help improve the plight of its customers, it evaluates their overall situations, which includes financial status, competency and feasibility of the business. It provides financial assistance to help improve their financial standing, achieve their dreams, and not to add more financial burden by merely focusing on increasing its loan portfolio. Customers' competencies and potentials are also being considered.*
- 3. To make sure that its dealings with customers are completely transparent, it discusses and informs all the terms and conditions to the customers before any signing of contracts. For their concerns or complaints, the bank dealt it with urgency, and judiciously.*
- 4. To help the public, it constantly finds ways to help improve the situations in the community, which could be accomplished in many ways, such as: feeding the marginalized sectors, education, tree planting, etc. Recently, NORDB has adopted a school and scholarship grant related to the bank's sister company, Global Reciprocal College.*
- 5. To ensure properly structured board, independent directors are brought in yearly, in accordance to their experience, to ensure impartiality as they do not share the ties of the insiders or majority stockholders. They dilute the concentration of power and help align the interest of all its stakeholders. This includes the creation of various committees: internal audit committee and corporate governance committee to guarantee the provision of an independent and objective judgment on significant corporate matters, and key issues; that the strategies are objectively reviewed, constructively challenged, and thoroughly examined.*



*The Board of Directors formally incorporated the established governance policies and practices in accordance with Bangko Sentral ng Pilipinas (BSP) Circular No. 969 “Enhanced Corporate Governance Guidelines for BSP-Supervised Financial”. The Board aims to promote adherence and further strengthen the Bank’s commitment to good corporate governance.*

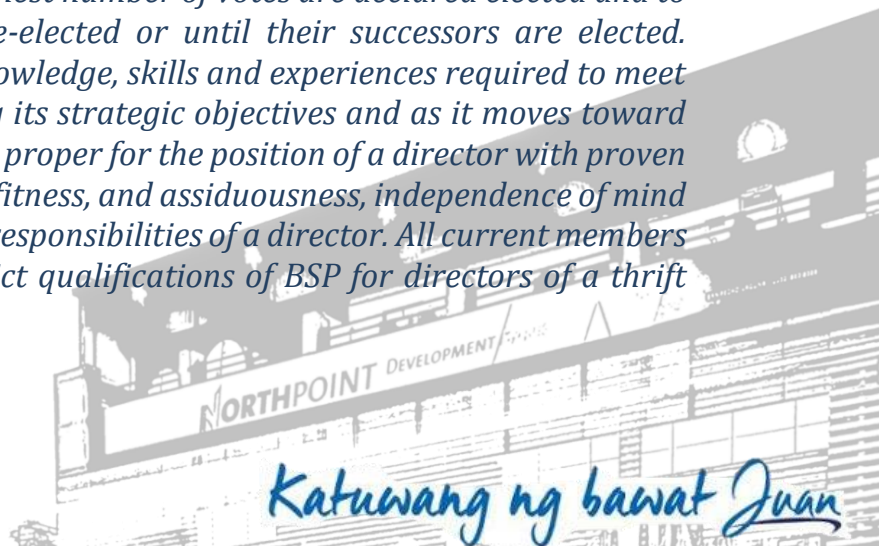
*This is in conjunction with the Bank’s Articles of Incorporation, By-Laws and the charters of the Board Committees constitute the governance framework of the Bank.*

*The Board of Directors, management, officers and staff of the Bank hereby commit themselves to the principles and practices contained in the Corporate Governance Manual and acknowledge that the same will be their guide to principled actions and responsible conduct in the development and achievement of our corporate goals. To enjoin Bank-wide compliance, the said Manual is cascaded to officers and staff of the Bank. A digital copy of the Manual is made available through the file server and compliance library for easy access by all employees, officers and directors of the Bank.*

*The position of a bank director is a position of trust. A director assumes certain responsibilities to different constituencies or stakeholders, e.g., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large. The Board is also responsible for approving and overseeing the implementation of the Bank’s strategic objectives, risk strategy, corporate governance and corporate values. Further, the Board is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day to day affairs of the Bank.*

## **SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT**

*The members of the board have been selected by Northpoint stockholders who are entitled to vote at the bank’s annual stockholders meeting held annually on the month of June. The nominees receiving the highest number of votes are declared elected and to hold office for one (1) year unless re-elected or until their successors are elected. Member were selected based on the knowledge, skills and experiences required to meet the needs of the bank in accomplishing its strategic objectives and as it moves toward its vision. All members should be fit and proper for the position of a director with proven integrity/probity, physical and mental fitness, and assiduousness, independence of mind and sufficiency of time to carry out the responsibilities of a director. All current members are qualified as they have met the strict qualifications of BSP for directors of a thrift bank.*



*For senior executives, the Corporate Governance Committee plays a major role in the selection of senior executives of the bank as it determines whether the nominees are fit and qualified to be appointed to senior management. The committee reviews and evaluates the qualifications by applying the fit and proper standard, integrity, functional and technical expertise and experience in the institution's business as key considerations.*

## **MAJOR ROLE AND CONTRIBUTION OF THE CHAIRMAN OF THE BOARD**

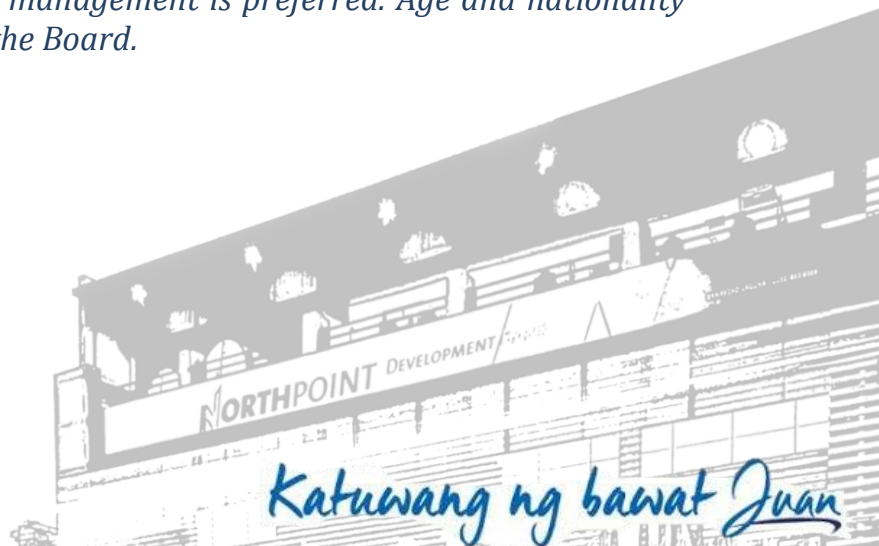
*Among the list of roles of the Chairperson of the board or directors, his major part and contribution is to provide leadership in the board of directors by ensuring that all members are effectively functioning.*

*Chairman Ramon B. Manzana has done this by always ensuring that the monthly board meeting agenda focuses only on strategic matters and other key governance concerns, including risk management. He sees to it that all decisions made by the body have undergone a sound decision making process by encouraging critical discussion and entertaining dissenting views after receiving all material information or facts needed to make an educated and well calculated decision.*

*The Board is composed of seven (7) members: four (4) non-executive directors, one (1) executive director, and two (2) independent directors.*

## **RELEVANT QUALIFICATIONS, AGE, AND NATIONALITY OF THE EXECUTIVE OFFICERS/SENIOR MANAGEMENT**

*Executive Officers/Senior Management must have a bachelor's degree in Business Administration or its equivalent, 15 years work experience in performing executive or managerial functions in a bank or any similar financial institutions. A post graduate degree or units in the field of business management is preferred. Age and nationality requirements are still under review of the Board.*



## **PROCESS ADOPTED IN ASSESSING THE PERFORMANCE OF THE BOARD AND SENIOR MANAGEMENT**

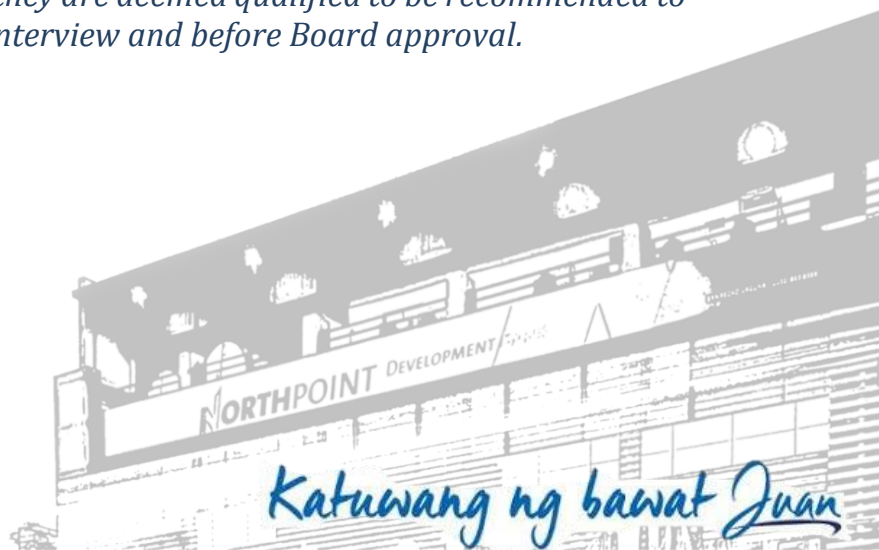
*The Board is being assessed annually by undertaking a constructive but a critical review of their own performance, as board or committee members, and collectively, identifying his individual strengths and weaknesses and that of the Board and its committee in the conduct of their businesses. One of the objectives of this assessment is to get a consensus on targeted improvements as it includes plans and recommendations of the members of the Board/Committee on how to further improve its performance.*

*The performance assessment has four (4) levels: Board level assessment, Committee level assessment, Individual Director Assessment and Board Assessment of President and CEO considering the following key evaluation factors, such as: the functions of the board, board strategy and effectiveness, board structure and committees, board and management relations and training and value creation, among others.*

## **OVERVIEW OF THE RETIREMENT AND SUCCESSION POLICY, RETIREMENT AGE FOR BOARD AND SENIOR MANAGEMENT, AND TERM LIMIT OF THE MEMBERS OF THE BOARD**

*Northpoint's succession policy is established to ensure that the leadership pipeline is always secured by identifying, developing, engaging and retaining top performing and high potential successors. This responsibility to make sure that a pool of qualified successors are always available rests upon the Succession Management Committee (SMC), which is composed of four (4) members: President as Chairman, VP for Treasury Group as Vice Chairman, Head of Systems and Methods Department as member and Head of Human Resources as Secretariat.*

*The identified successors shall undergo various competency assessments and evaluations: technical, functional, leadership and values. They will be coached and mentored as well until such time when they are deemed qualified to be recommended to Corporate Governance Committee for interview and before Board approval.*



*In terms of retirement, retirement age of board of directors and senior management are still undergoing review of the Board. While an Independent director may only serve as such for a maximum cumulative term of nine (9) years. After which, the independent director shall be perpetually barred from serving as independent director in the same bank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.*

## **POLICIES AND PROCEDURES FOR DECLARING DIVIDENDS**

*The Board has the discretion to declare or grant dividends to its stockholders when it deemed financially justified such as when its retained earnings is in excess of 100% of its capital stock, among others, except when it's prohibited to do so by virtue of a loan agreement with any creditor from declaring dividends without its consent or when retention is necessary such as when there is a need for a special reserve for probable contingencies.*



# RELATED PARTY TRANSACTIONS

*Related Party Transactions (RPTs) policy includes the following:*

- 1. All RPTs are conducted at arm's length basis and compliant with applicable regulatory limits/requirements. Said transactions are made and entered into, on terms and conditions substantially not less favorable than those with other customers of comparable risks.*
- 2. All transactions below the considered material between related parties require approval by any of the two (2) members of the Management Committee (MANCOM), subject to confirmation of the Board of Directors. This shall exclude DOSRI transactions which are required to be approved by the Board of Directors. Any renewal or material changes in the terms and conditions of RPTs are also approved by the Board of Directors.*
- 3. If an actual or potential conflict of interest arises on the part of a director, officer or employee, he is mandated to fully and immediately disclose the same and does not participate in the decision-making process relating to the transaction.*
- 4. Any member of the Board who has an interest in the transaction under discussion does not participate therein and abstains from voting on the approval of the transaction. The fact that such director abstained from deliberation and approval of such transaction is duly recorded in the minutes of the meeting.*
- 5. Any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party subjects the RPT to the requirements of this policy.*

*Materiality Threshold –the following RPTs shall be considered material:*

<i>RPT Type</i>	<i>Materiality Threshold</i>
<i>On and off balance sheet financial assets and liabilities</i>	<i>Aggregate exposure of more than 5.0% of the Bank's Net Worth or P15.0 Million, whichever is higher</i>
<i>Sale, purchase, Wlease, or transfer of assets</i>	<i>Aggregate amount of contract prices more than 5.0% of the Bank's Net Worth or P15.0 Million, whichever is higher, or fair values of assets whichever is higher within one year.</i>

6. *The following transactions shall NOT be categorized as RPTs:*

- *Executive Officer and Director compensation arrangements;*
- *Transactions with a related party for trust, funds depositary or similar payment;*
- *Transactions granted under Bangko Sentral approved fringe benefit programs; and*
- *Transactions available to all employees in general such as deposit transactions.*

7. *Internal Limits:*

*Total related party credit exposures shall NOT EXCEED 30% of the total credit exposures or 50% of the net worth of the Bank, whichever is lower. Breaches in limits shall be reported to the Board of Directors (BOD) with the decision of the BOD to accept the exposure or to take steps to address the breaches, as may be necessary.*

8. *All Related Parties shall undergo the Vendor Management Process and shall be part of the Canvassing Process (from at least 3 accredited suppliers / service provider) of the Bank.*



# SELF-ASSESSMENT FUNCTION

*As an extension of the Board of Directors, the Audit and Compliance Committee assists the Board of Directors in fulfilling its oversight responsibilities on:*

- 1. All matters pertaining to audit – the Bank’s internal audit function and performance, the integrity of the Bank’s financial statements, and the Bank’s accounting process in general, among others.*
- 2. Compliance function/system, including the Bank’s compliance with laws, rules and regulations and code of conduct; and*
- 3. Senior management’s activities, as well as the Bank’s internal and external auditors and monitoring and evaluating the adequacy and effectiveness of the Bank’s internal control system.*

*The Committee shall have the authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The Committee reports activities regularly to the Board of Directors and submit the Committee’s annual performance report.*

*The Internal Audit and Compliance functions are independent and accorded with sufficient resources and manpower complement to carry out their respective responsibilities. Audit results and compliance reports are directly submitted to the Audit and Compliance Committee (ACC). The ACC conducts monthly meetings and ascertains that Management promptly acts on all audit findings and that replies and commitments are adequately documented.*



# BOARD OF DIRECTORS

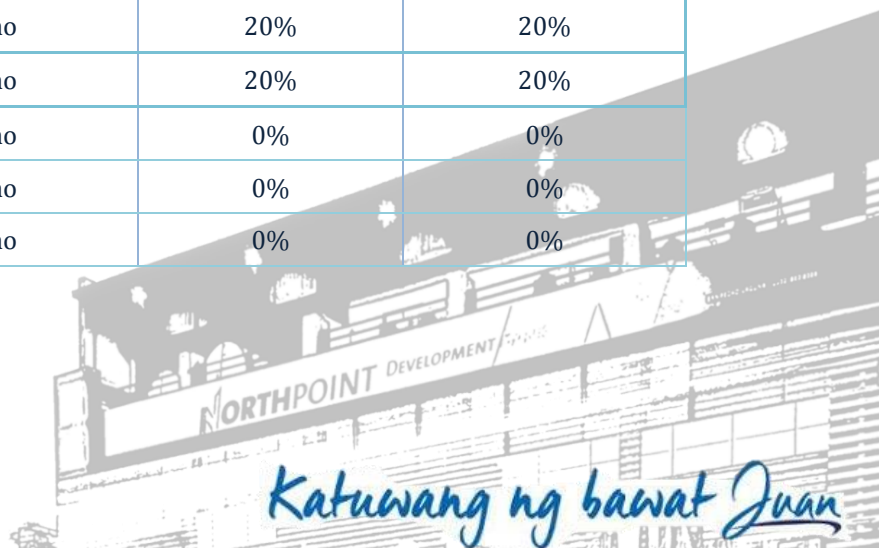
*The Board of Directors is primarily responsible for the governance of the Bank. It is the Board's responsibility to foster the long-term success of the Corporation and secure its sustained competitiveness in a manner consistent with its fiduciary responsibility, which is exercised in the best interest of the organization, its shareholders and other stakeholders. The Board conducts itself with utmost honesty and integrity in the discharge of its functions, duties, and responsibilities.*

## COMPOSITION OF THE BOARD

- a. The business affairs of the Bank are conducted under the supervision and control of a Board of seven (7) Directors. To the extent practicable, the members of the board of directors are selected from a broad pool of qualified candidates. Non-executive directors, including those independent directors, are comprise of at least majority of the board of directors to promote the independent oversight of management by the board to promote the independent oversight of the management of the bank. The stockholders of the Bank elect the members of the Board during the annual meeting.*
- b. At least one-third (1/3) but not less than two (2) members of the board of directors are independent directors. Any fractional result from applying the required minimum proportion of one-third (1/3) shall be rounded up to the nearest whole number.*

## STOCKHOLDERS 2019

Stockholders	Nationality	Percentage of Stockholdings	Voting Status
Ramon B. Manzana	Filipino	20%	20%
Alex C. Ongtenco	Filipino	20%	20%
Thomas C. Ongtenco	Filipino	20%	20%
Paulino C. Ongtenco	Filipino	20%	20%
Victor C. Ongtenco	Filipino	20%	20%
Robert J. Tan	Filipino	0%	0%
Edwardson L. Ong	Filipino	0%	0%
Catalino T. Solidum	Filipino	0%	0%

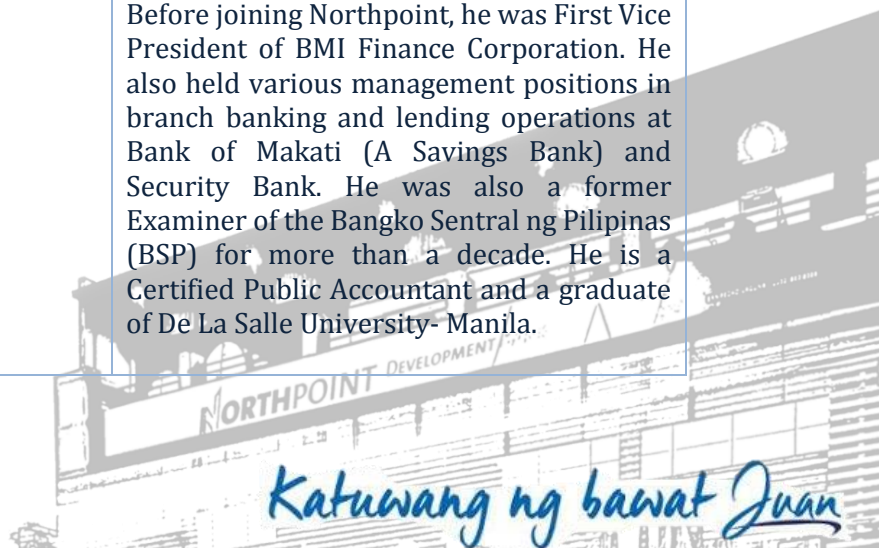


## BOARD OF DIRECTORS COMPOSITION 2019

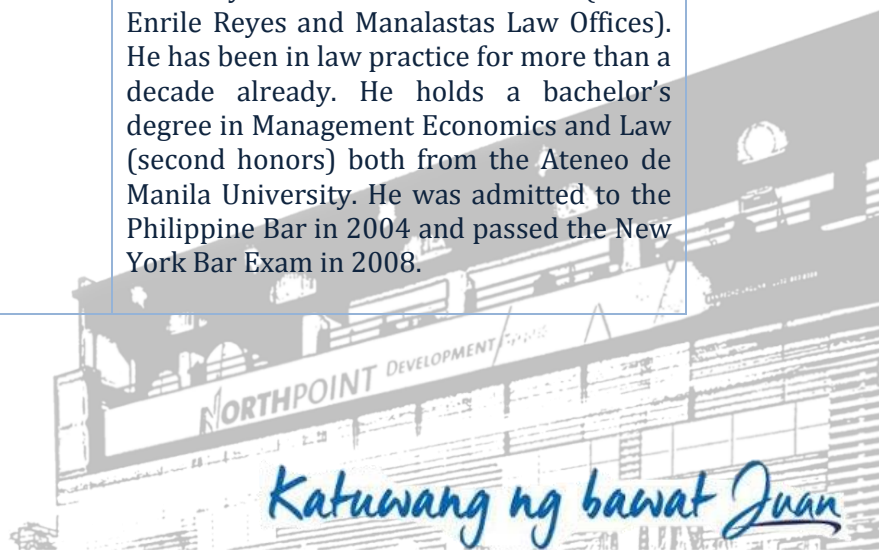
Directors	Type of Directorship	Number of years served as Director	Percentage of Shares
Ramon B. Manzana	Chairman of the Board	7 years	19.99%
Catalino T. Solidum	Executive	3 years	0%
Victor C. Ongtenco	Non-executive	7 years	20%
Paulino C. Ongtenco	Non-executive	7 years	20%
Robert J. Tan	Independent	7 years	0%
Edwardson L. Ong	Independent	7 years	0%

## BOARD QUALIFICATION

Name	Age	Nationality	Qualification
<b>Ramon B. Manzana</b> <i>Chairman of the Board</i>	63	Filipino	Mr. Manzana is the Chairman of the Board since June 2012. He is likewise the Managing Director of Bank of Makati (A Savings Bank). He also occupies key positions in various companies – President of Honda Prestige Traders, Inc., Chairman of the Board of Trustees of Tanglaw ng Buhay Foundation, Treasurer of Masters Academy and Trustee/Elder of the Christ Commission Fellowship (CCF). He previously served as President of the Federation of Metro Manila Rural Bankers, Inc. and Director of the Rural Bankers Association of the Philippines (RBAP).
<b>Catalino T. Solidum</b> <i>Director</i>	63	Filipino	President Solidum is a seasoned banker with over 40 years of banking experience. Before joining Northpoint, he was First Vice President of BMI Finance Corporation. He also held various management positions in branch banking and lending operations at Bank of Makati (A Savings Bank) and Security Bank. He was also a former Examiner of the Bangko Sentral ng Pilipinas (BSP) for more than a decade. He is a Certified Public Accountant and a graduate of De La Salle University- Manila.



<b>Victor C. Ongtenco</b> <i>Director</i>	49	Filipino	Mr. Victor C. Ongtenco is a Director of the Bank since June 2012. He also serves as Business Development Head of Motortrade Nationwide Corporation. He spearheaded the active marketing campaigns of the company which allowed it to maintain its leadership in motorcycle dealership all over the Philippines. He likewise holds key positions in various companies – President of Transnational Properties, Inc. and Vice President of Veradex Development Corporation. He holds a bachelor’s degree in Industrial Design from Carleton University in Canada.
<b>Paulino C. Ongtenco</b> <i>Director</i>	57	Filipino	Mr. Paulino C. Ongtenco is a Director of the Bank since June 2012. He was the Former President of Fundline Finance Corporation, one of the leading micro-lending and motorcycle financing company in the country today. He likewise holds board and management positions in Motortrade Nationwide Corporation, Global Reciprocal Colleges, and Haodeng Holdings, Inc.
<b>Robert J. Tan</b> <i>Director</i>	61	Filipino	Mr. Robert J. Tan is an Independent Director of the Bank since 2012. He is likewise the President and CEO of Trans-system Hydraulic and Equipment Supply, Inc. He also holds key positions in various companies – as President of Trackstar Enterprises Corp.; Treasurer of King Jelly Bar Manufacturing, Khalam Realty Development Corp. and Sinim Realty Development Corp.
<b>Edwardson L. Ong</b> <i>Director</i>	40	Filipino	Atty. Edwardson L. Ong is an Independent Director of the Bank since 2012. He is currently a Partner in PECABAR Law (Ponce Enrile Reyes and Manalastas Law Offices). He has been in law practice for more than a decade already. He holds a bachelor’s degree in Management Economics and Law (second honors) both from the Ateneo de Manila University. He was admitted to the Philippine Bar in 2004 and passed the New York Bar Exam in 2008.



# BOARD COMMITTEES

## AUDIT AND COMPLIANCE COMMITTEE

*Mr. Robert J. Tan, Chairman*

*Mr. Paulino C. Ongtenco, Member*

*Atty. Edwardson L. Ong, Member*

*As an extension of the Board of Directors, the Audit and Compliance Committee assists the Board of Directors in fulfilling its oversight responsibilities on:*

- 1. All matters pertaining to audit – the Bank’s internal audit function and performance, the integrity of the Bank’s financial statements, and the Bank’s accounting processes in general, among others.*
- 2. Compliance function/system, including the Bank’s compliance with laws, rules and regulations and code of conduct; and*
- 3. Senior management’s activities, as well as the Bank’s internal and external auditors and monitoring and evaluating the adequacy and effectiveness of the Bank’s internal control system.*

## CORPORATE GOVERNANCE COMMITTEE

*Atty. Edwardson L. Ong, Chairman*

*Mr. Robert J. Tan, Member*

*Mr. Paulino C. Ongtenco, Member*

*The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities. The Committee shall review and evaluate the chairman of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.*



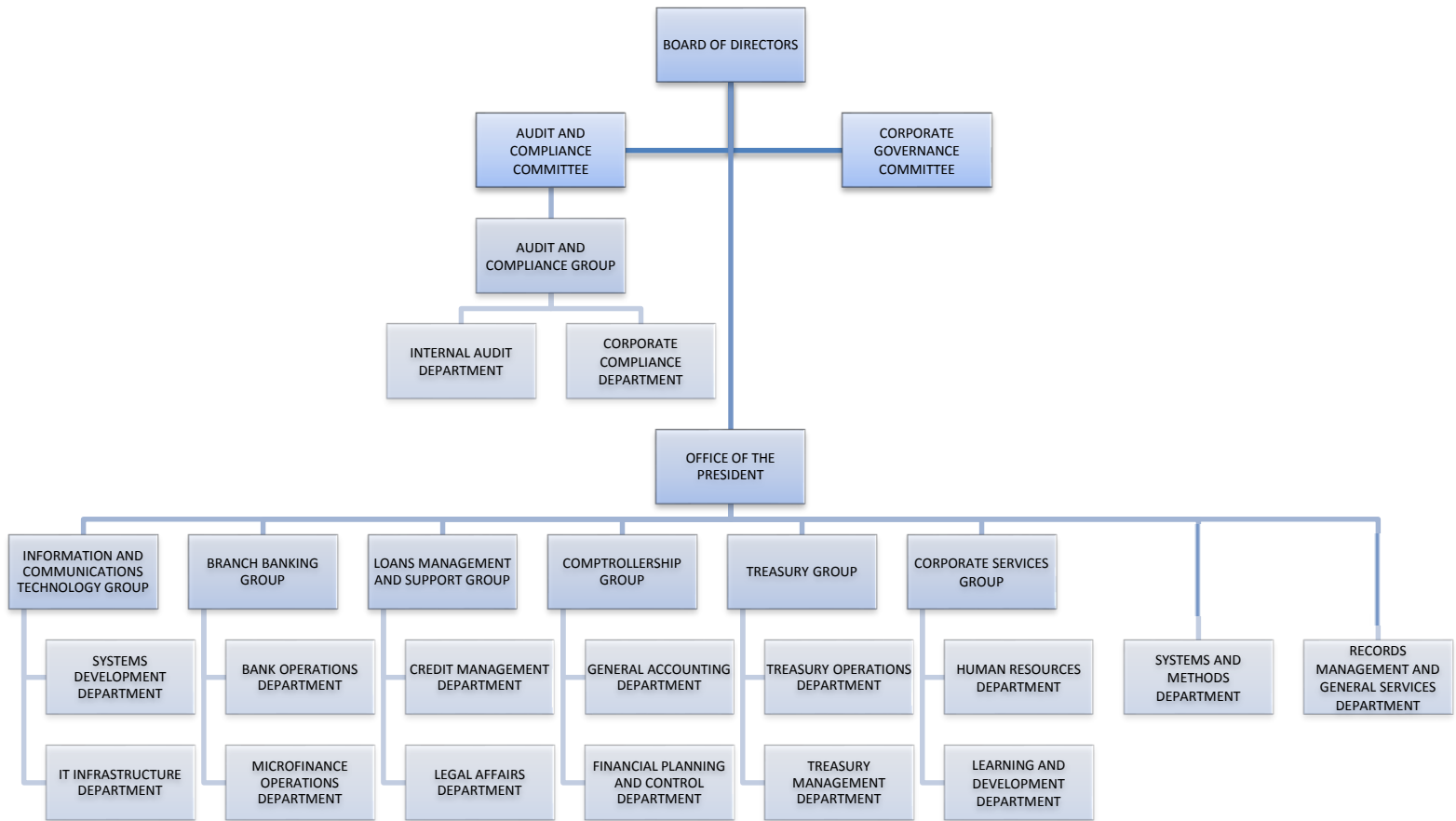
*Katuwang ng bawat Juan*

## BOARD OF DIRECTORS MEETING 2019

Directors	Board No. of Meetings		Audit & Compliance Committee No. of Meetings		Corporate Governance No. of Meetings	
	Attended	%	Attended	%	Attended	%
Ramon B. Manzana	10	83%	-	-	-	-
Catalino T. Solidum	12	100%	-	-	-	-
Victor C. Ongtenco	9	75%	-	-	-	-
Paulino C. Ongtenco	8	67%	9	82%	2	67%
Robert J. Tan	9	75%	9	82%	3	75%
Edwardson L. Ong	10	83%	11	100%	4	83%



# ORGANIZATIONAL CHART



# THE EXECUTIVES



# DEPARTMENT MANAGERS



**ANNA SHEILA P. ZIALCITA**

Credit Management  
Department Head



**RAMOEL D. CUASAY**

General Accounting  
Department Head



**IRENEO HERNANDO E. BANTA**

Special Projects Head



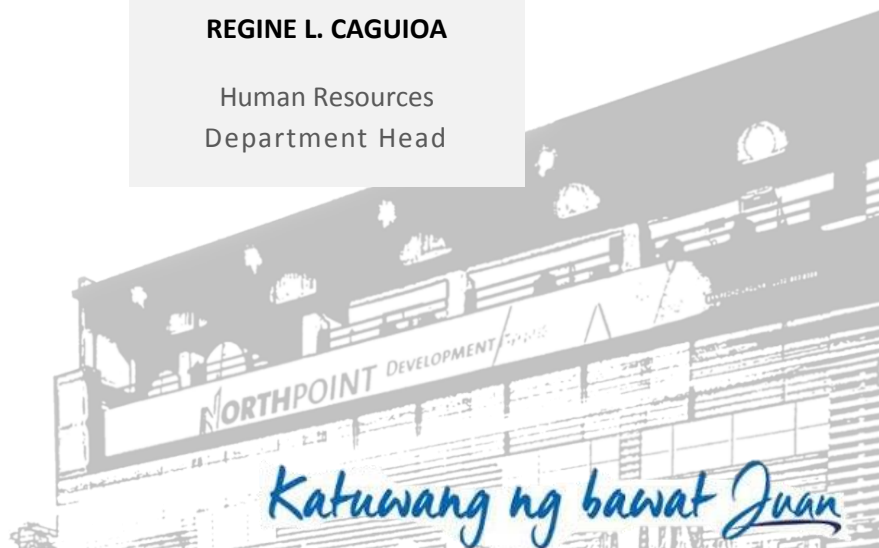
**JEANNETH B. CALLANTA**

Systems and Methods  
Department Head



**REGINE L. CAGUIOA**

Human Resources  
Department Head



# AREA MANAGERS



# CORPORATE OFFICES



## Main Branch Office:

3/4F SP Junction Bldg, National Highway & Mabini St., Brgy. Nueva, San Pedro, Laguna



## Bank Branch Office:

Ground Floor, Honaco Bldg., Nancayasan, Urdaneta City



### AGOO

326 National Highway, San Antonio, Agoo, La Union



### ALAMINOS

87 Sadsaran St., Poblacion, Alaminos City, Pangasinan



### CALAMBA

Dencris Business Center National Highway, Brgy. Halang, Calamba City, Laguna



### CALAUAG

JP Rizal St., Brgy. Sta. Maria, Calauag, Quezon



### CAMILING

Ground Floor, ADK Bldg. Luna St., Brgy. Poblacion C, Camiling, Tarac



### CANDELARIA

Maharlika Highway corner Ona St., Poblacion, Candelaria, Quezon



### CONCEPCION

551 and 552 Bituin Bldg. L. Cortez St., San Nicolas Concepcion, Tarlac



### DASMARINAS

275 Fox Globe Holding Bldg. Aguinaldo Highway, Brgy. Sampaloc 1, Dasmaringas City, Cavite



### GUMACA

AOC Bldg., J.P. Rizal St., Brgy. Peñafrancia, Gumaca, Quezon



### IMUS

LMCOR Building 155 Nueno Avenue, Tanzang Luma I Imus City, Cavite



### LAS PINAS

0021(C1) Urci Las Pinas City Townhomes St. Pamplona III, Las Pinas City



### LUCBAN

Ground Floor, Elma Bldg., San Luis St., Brgy. 8, Lucban, Quezon



### LIGAO

Lladoc Building, Crespo St., Guilid, Ligao City, Albay



### LUCENA

Ground Floor, Tan Bldg., Juarez St. Brgy 7, Lucena City



# CORPORATE OFFICES



## MARIKINA

474 J.P. Rizal St., Sto. Niño, Marikina City



## NORTH CALOOCAN

Unit 2 - Aryanna Village Center Brgy. 175 Susano Road Camarin, Caloocan City



## PANIQUEI

ODK Bldg., McArthur Highway, Brgy. Estacion, Paniqui, Tarlac



## SAN CARLOS

Ground Floor, Palisoc Bldg., #9 Bonifacio St., San Carlos City, Pangasinan



## SAN PABLO

Ground Floor, Ultimart Shopping Plaza, M. Paulino Street, San Pablo City, Laguna



## SINILOAN

Ground Floor Mario Carandang Bldg., M. Pandeno St., Brgy. Pandeno, Siniloan, Laguna



## SOUTH CALOOCAN

#524 EDSA, Brgy. 094, District 2, Caloocan City



## STA. CRUZ

Marcelino Rosario Co. Bldg. (MRC) Quezon Avenue, Brgy. Sto. Angel Sur, Sta. Cruz, Laguna



## TAGUIG

61 M. L. Quezon Street, Barangay Wawa, Taguig City



## TANZA

Tanza 1st Floor, Rm. 101-102 Jackson Heights Development & Managers Co. Bldg., Brgy. Daang Amaya I, Tanza, Cavite



## TARLAC

Ground Floor, JNLB Bldg., McArthur Highway, Brgy. Ligtasan, Tarlac City



## TAYABAS

Quezon Avenue corner, General Luna St., Brgy. Angeles, Zone 3, Tayabas City, Quezon



## VALENZUELA

293 Maysan Road, Paso de Blas, Valenzuela City



## VIGAN

MCL Bldg. 20 Liberation Blvd., Vigan City, Ilocos Sur