



**QUEEN CITY  
DEVELOPMENT  
BANK, INC.**

FINANCIAL STATEMENTS  
December 31, 2019 and 2018

With Independent Auditors' Report

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Queen City Development Bank, Inc. and Subsidiaries**  
Queenbank Financial Center, Sky City Tower  
Mapa Street, Iloilo City

### Report on the Audit of Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Queen City Development Bank, Inc. and Subsidiaries (the Group) and the parent company financial statements of Queen City Development Bank, Inc. (the Parent Company) (collectively, financial statements), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of profit or loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

#### *Basis for Opinion*

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

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

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

In preparing the financial statements, management is responsible for assessing the Group's and the Parent Company'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 Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company'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 Group's and the Parent Company'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 Group and the Parent Company 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

**Reports on the Supplementary Information Required under Bangko Sentral ng Pilipinas Circular (BSP) No. 1074 and Revenue Regulations (RR) 15-2010 of the Bureau of Internal Revenue (BIR)**

Our audit was made conducted for the purpose of forming an opinion on the Parent Company's financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 29 and BIR RR 15-2010 in Note 30 to the Parent Company's financial statements is presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of the Parent Company's financial statements. Such supplementary information is the responsibility of the Parent Company's management. The supplementary information has been subjected to the auditing procedures applied in our audit of the Parent Company's financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Parent Company's basic financial statements taken as a whole.

**R.G. MANABAT & CO.**



TIRESO RANDY F. LAPIDEZ

Partner

CPA License No. 0092183

SEC Accreditation No. 1472-AR-1, Group A, valid until July 2, 2021

Tax Identification No. 162-411-175

BIR Accreditation No. 08-001987-34-2017

Issued September 4, 2017; valid until September 3, 2020

PTR No. MKT 8116769

Issued January 2, 2020 at Makati City

June 10, 2020

Makati City, Metro Manila

**QUEEN CITY DEVELOPMENT BANK, INC. AND SUBSIDIARIES**  
**STATEMENTS OF FINANCIAL POSITION**

December 31

	Note	Consolidated		Parent Company	
		2019	2018	2019	2018
<b>ASSETS</b>					
Cash and other cash items	26	P40,927,996	P49,507,938	P40,079,931	P45,054,422
Due from Bangko Sentral ng Pilipinas	4, 26	314,618,918	164,636,620	310,166,029	160,157,070
Due from other banks	5, 26	219,276,982	88,331,856	113,038,786	82,037,787
Financial assets at fair value through other comprehensive income	6, 26	2,500,000	2,500,000	2,500,000	2,500,000
Loans and receivables - net	7, 26	1,726,640,883	1,756,601,302	1,655,189,712	1,676,151,518
Investments in subsidiaries	8	-	-	23,189,268	23,189,268
Property and equipment - net	9	186,089,464	183,444,702	177,852,167	178,935,933
Investment properties - net	10, 26	74,771,151	110,706,191	62,167,833	103,432,446
Right-of-use assets - net	21	18,664,298	-	16,876,868	-
Software - net	11	8,984,494	10,369,624	8,463,251	10,333,698
Deferred tax assets - net	22	1,904,589	-	849,933	-
Retirement asset	20	-	2,592,746	-	2,592,746
Other assets	12, 26	11,759,257	12,901,414	10,781,853	12,100,295
		<b>P2,606,138,032</b>	<b>P2,367,012,593</b>	<b>P2,421,155,633</b>	<b>P2,296,465,163</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposit liabilities:	14, 26				
Savings		P1,270,002,914	P1,111,637,894	P1,139,435,251	P1,059,427,077
Demand		354,747,417	321,262,973	356,125,214	324,913,035
Time		130,313,550	138,354,058	129,780,052	137,636,945
		<b>1,755,063,881</b>	<b>1,571,254,925</b>	<b>1,625,340,517</b>	<b>1,531,977,057</b>
Accounts payable and accrued expenses	15, 26	28,603,881	27,120,956	25,816,002	25,141,599
Income tax payable		8,389,455	2,604,699	8,628,854	2,716,234
Lease liabilities	21, 26	19,483,974	-	17,691,648	-
Retirement liability	20	12,121,238	-	12,121,238	-
Deferred tax liabilities - net	22	-	4,609,197	-	5,303,335
Other liabilities	16, 26	6,576,433	21,906,911	6,037,688	21,196,956
		<b>1,832,238,862</b>	<b>1,627,846,716</b>	<b>1,697,035,947</b>	<b>1,566,417,161</b>
<b>Equity Attributable to Equity Holders of the Parent Company</b>					
Common stock	18	650,000,000	650,000,000	650,000,000	650,000,000
Surplus		75,102,503	67,246,546	68,469,985	61,720,203
Appropriation for general loan loss provision		13,348,320	-	13,348,320	-
Retirement benefits reserve		(7,698,619)	347,779	(7,698,619)	347,779
		<b>730,752,204</b>	<b>717,594,625</b>	<b>724,119,686</b>	<b>712,067,982</b>
<b>Noncontrolling Interests</b>		<b>43,146,966</b>	<b>41,571,250</b>	<b>-</b>	<b>-</b>
		<b>773,899,170</b>	<b>759,165,875</b>	<b>724,119,686</b>	<b>712,067,982</b>
		<b>P2,606,138,032</b>	<b>P2,367,012,593</b>	<b>P2,421,155,633</b>	<b>P2,296,465,163</b>

See Notes to the Financial Statements.

**QUEEN CITY DEVELOPMENT BANK, INC. AND SUBSIDIARIES**  
**STATEMENTS OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE LOSS**

Years Ended December 31

	Note	Consolidated		Parent Company	
		2019	2018	2019	2018
<b>INTEREST INCOME</b>					
Loans and receivables	7	P141,314,741	P126,269,271	P134,793,368	P121,074,675
Due from Bangko Sentral ng Pilipinas	4	5,097,752	4,790,309	5,097,752	4,790,309
Due from other banks	5	3,901,816	2,044,519	1,546,613	1,062,919
		<b>150,314,309</b>	<b>133,132,099</b>	<b>141,437,733</b>	<b>126,935,903</b>
<b>INTEREST EXPENSE</b>					
Deposit liabilities	14	21,811,582	17,317,449	20,623,427	16,033,317
Lease liabilities	21	1,446,716	-	1,440,316	-
		<b>23,258,298</b>	<b>17,317,449</b>	<b>22,063,743</b>	<b>16,033,317</b>
<b>NET INTEREST INCOME</b>					
Service charges and bank commissions		127,056,011	115,614,650	119,373,990	110,902,586
Penalties		7,859,611	6,900,425	6,754,300	6,031,467
Miscellaneous income	19	1,518,430	22,657,416	879,898	22,104,344
		<b>36,771,205</b>	<b>22,975,959</b>	<b>33,606,040</b>	<b>17,576,676</b>
<b>TOTAL OPERATING INCOME</b>		<b>173,205,257</b>	<b>166,426,452</b>	<b>160,614,228</b>	<b>156,615,293</b>
Compensation and fringe benefits		64,179,874	58,644,093	59,773,871	54,715,205
Depreciation and amortization	9, 10, 11, 21	17,533,897	12,857,053	16,247,479	12,058,614
Taxes and licenses		11,430,147	13,261,531	10,494,733	12,461,569
Security services		11,013,511	9,620,359	10,641,772	9,450,468
Communication, light and water		7,066,938	7,026,356	6,741,421	7,347,926
Insurance		4,376,502	4,426,321	4,025,742	4,066,264
Transportation and travel		3,709,171	4,202,722	3,590,351	4,055,755
Management and professional fees		3,361,619	1,502,358	2,791,311	767,968
Litigation and assets acquired expenses		1,980,956	1,220,771	862,839	912,005
Repairs and maintenance		1,971,240	2,022,921	1,940,070	1,996,205
Provision for (recovery of) credit and impairment losses	13	1,787,936	(4,604,455)	2,385,434	(4,730,603)
Advertising and promotion		1,687,835	699,622	1,527,063	664,435
Entertainment, amusement and recreation		1,474,990	6,421,026	1,426,993	6,396,753
Stationery and supplies		1,420,568	2,031,754	1,248,621	1,927,654
Membership fees and dues		291,023	216,367	280,463	205,667
Foreign exchange loss - net		246,111	1,134,899	246,111	1,134,899
Rent	21	70,720	7,016,635	91,620	6,934,277
Loss on write-off of software	11	-	7,692,209	-	7,692,209
Miscellaneous expense		5,050,809	5,447,120	4,815,222	5,019,941
		<b>138,584,847</b>	<b>143,932,064</b>	<b>129,131,116</b>	<b>135,261,541</b>
<b>INCOME BEFORE INCOME TAX EXPENSE</b>		<b>34,620,410</b>	<b>24,496,388</b>	<b>31,483,112</b>	<b>21,333,752</b>
<b>INCOME TAX EXPENSE</b>	22	<b>11,840,717</b>	<b>6,201,348</b>	<b>11,385,010</b>	<b>5,394,463</b>
<b>NET INCOME</b>		<b>22,779,693</b>	<b>18,295,040</b>	<b>20,098,102</b>	<b>15,939,289</b>
<b>OTHER COMPREHENSIVE LOSS</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurement losses on retirement liability	20	(11,494,854)	(4,447,206)	(11,494,854)	(4,447,206)
Deferred tax effect	22	3,448,456	1,334,162	3,448,456	1,334,162
		<b>(8,046,398)</b>	<b>(3,113,044)</b>	<b>(8,046,398)</b>	<b>(3,113,044)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P14,733,295</b>	<b>P15,181,996</b>	<b>P12,051,704</b>	<b>P12,826,225</b>
<b>Net income attributable to:</b>					
Equity holders of the Parent Company		P21,203,977	P16,747,461	P -	P -
Noncontrolling interests		1,575,716	1,547,579	-	-
		<b>P22,779,693</b>	<b>P18,295,040</b>	<b>P -</b>	<b>P -</b>
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Parent Company		P13,157,579	P13,634,437	P -	P -
Noncontrolling interests		1,575,716	1,547,559	-	-
		<b>P14,733,295</b>	<b>P15,181,996</b>	<b>P -</b>	<b>P -</b>

See Notes to the Financial Statements.

**QUEEN CITY DEVELOPMENT BANK, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31

	Consolidated						
	Equity Attributable to Equity Holders of the Parent Company						
	Common Stock (Note 15)	Surplus	Appropriation for General Loan Loss Provision (Note 15)	Retirement Benefits Reserve	Total	Noncontrolling Interests	Total Equity
Balance at January 1, 2019	P858,000,000	P87,246,846	P -	P347,778	P717,594,625	P41,571,250	P759,165,875
Total comprehensive income							
Net income for the year	-	21,203,977	-	-	21,203,977	1,575,718	22,779,893
Other comprehensive loss	-	-	-	(8,046,398)	(8,046,398)	-	(8,046,398)
	-	21,203,977	-	(8,046,398)	13,157,579	1,575,718	14,733,295
Appropriation for general loan loss provision	-	(13,348,328)	13,348,320	-	-	-	-
Balance at December 31, 2019	P858,000,000	P75,162,503	P13,348,320	(P7,698,619)	P730,752,284	P43,146,966	P773,899,170
Balance at December 31, 2017	P850,000,000	P62,550,639	P -	P5,400,823	P718,011,462	P27,746,483	P745,757,945
Adjustment on initial application of Philippine Financial Reporting Standard 9, Financial Instruments, net of tax	-	(12,081,274)	-	-	(12,081,274)	(480,487)	(12,561,761)
Balance at January 1, 2018, as restated	850,000,000	50,469,365	-	3,400,823	703,950,158	27,266,016	731,216,204
Total comprehensive income							
Net income for the year	-	18,747,481	-	-	18,747,481	1,547,559	18,295,040
Other comprehensive loss	-	-	-	(3,113,044)	(3,113,044)	-	(3,113,044)
	-	18,747,481	-	(3,113,044)	P13,634,437	1,547,559	15,181,996
Subscription of unissued stocks of subsidiary by noncontrolling interest	-	-	-	-	-	12,757,675	12,757,675
Balance at December 31, 2018	P850,000,000	P67,246,846	P -	P347,778	P717,594,625	P41,571,250	P759,165,875

See Notes to the Financial Statements.

**QUEEN CITY DEVELOPMENT BANK, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31

	Parent Company				Total Equity
	Common Stock (Note 16)	Surplus	Appropriation for General Loan Loss Provision (Note 16)	Retirement Benefits Reserve	
Balance at January 1, 2019	P656,000,990	P61,720,293	P -	P347,779	P712,067,982
<b>Total comprehensive income</b>					
Net income for the year	-	20,095,192	-	-	20,095,192
Other comprehensive loss	-	-	-	(8,646,396)	(8,646,396)
	-	20,095,192	-	(8,646,396)	12,051,794
Appropriation for general loan loss provision	-	(13,348,320)	13,348,320	-	-
<b>Balance at December 31, 2019</b>	<b>P656,000,990</b>	<b>P68,466,985</b>	<b>P13,348,320</b>	<b>(P7,698,619)</b>	<b>P724,119,688</b>
Balance at December 31, 2017	P650,000,000	P57,370,582	P -	P3,480,823	P710,831,405
Adjustment on initial application of Philippine Financial Reporting Standard 9, Financial Instruments, net of tax	-	(11,500,649)	-	-	(11,500,649)
<b>Balance at January 1, 2018, as restated</b>	<b>650,000,000</b>	<b>45,769,933</b>	<b>-</b>	<b>3,480,823</b>	<b>699,251,757</b>
<b>Total comprehensive income</b>					
Net income for the year	-	19,939,299	-	-	19,939,299
Other comprehensive loss	-	-	-	(3,113,044)	(3,113,044)
	-	19,939,299	-	(3,113,044)	12,825,225
<b>Balance at December 31, 2018</b>	<b>P650,000,000</b>	<b>P61,720,293</b>	<b>P -</b>	<b>P347,779</b>	<b>P712,067,982</b>

See Notes to the Financial Statements.



**QUEEN CITY DEVELOPMENT BANK, INC. AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**

Years Ended December 31					
	Note	Consolidated		Parent	
		2019	2018	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Income before income tax expense		P34,020,410	P24,496,366	P31,483,112	P21,333,752
Adjustments for:					
Interest expense	14, 21	23,258,298	17,317,449	22,063,743	16,033,317
Depreciation and amortization	9, 10, 11, 21	17,533,897	12,657,053	16,247,479	12,056,614
Provision for (recovery of) credit and impairment losses	13	1,787,936	(4,604,455)	2,385,434	(4,730,603)
Retirement expense	20	3,219,130	2,279,796	3,219,130	2,279,796
Foreign exchange loss - net		246,111	1,134,899	246,111	1,134,899
Loss on write-off of software	11	-	7,692,209	-	7,692,209
Gains on:					
Sale of property and equipment	9, 19	(4,999)	(4,406,989)	-	-
Sale of investment properties	10, 19	(29,091,467)	(62,950)	(27,005,537)	-
Interest income	4, 5, 7	(150,314,309)	(133,132,099)	(141,437,733)	(126,935,903)
		(98,744,993)	(70,506,709)	(92,798,261)	(71,133,919)
Changes in:					
Loans and receivables		20,602,326	(102,225,643)	8,468,338	(73,456,363)
Other assets		754,185	178,943	870,471	803,429
Deposit liabilities		183,788,956	(10,841,106)	93,363,460	(37,720,345)
Accounts payable and accrued expenses		1,506,406	11,025,454	696,064	11,676,768
Other liabilities		(13,330,478)	10,743,530	(13,161,268)	10,159,134
		94,576,602	(175,627,611)	(2,561,196)	(159,569,315)
Interest received		149,247,485	133,105,144	141,316,906	126,970,483
Income taxes paid		(9,431,290)	(2,593,963)	(8,857,202)	(2,157,589)
Interest paid		(23,281,809)	(17,315,923)	(22,085,404)	(16,032,148)
Net cash provided by (used in) operating activities		211,090,988	(62,372,353)	107,813,104	(50,808,569)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of:					
Investment properties	10	66,169,130	92,950	60,931,333	-
Property and equipment	9	5,000	4,500,000	-	-
Proceeds from redemption of debt instruments at amortized cost		19,916,574	-	19,855,396	-
Additional investments in subsidiaries		-	-	-	(6,459,105)
Acquisitions of:					
Software	11	(747,162)	(8,736,000)	(149,163)	(8,736,799)
Investment properties	10	(8,856,356)	(3,666,067)	(1,260,000)	(3,141,975)
Property and equipment	9	(9,824,334)	(14,566,326)	(5,694,025)	(14,440,615)
Net cash provided by (used in) investing activities		66,662,852	(22,620,863)	73,683,541	(32,776,694)
Forward					

	Note	Consolidated		Parent	
		2019	2018	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from subscription of unissued stocks by noncontrolling interest					
		P -	P7,147,675	P -	P -
Payment of lease liabilities	21	(5,240,447)	-	(5,215,047)	-
Net cash (used in) provided by financing activities					
		(5,240,447)	7,147,675	(5,215,047)	-
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
		272,513,393	(77,045,541)	176,281,598	(83,587,263)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>					
Cash and other cash items					
		49,587,938	40,140,715	45,054,422	35,420,715
Due from Bangko Sentral ng Pilipinas					
		164,636,820	241,409,341	160,157,070	236,916,213
Due from other banks					
		88,331,856	99,982,898	82,037,767	99,634,493
		302,556,614	381,537,054	287,249,259	371,971,421
<b>EFFECT OF MOVEMENTS IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS HELD</b>					
		(246,111)	(1,134,899)	(246,111)	(1,134,899)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>					
Cash and other cash items					
		40,927,996	49,587,938	40,079,931	45,054,422
Due from Bangko Sentral ng Pilipinas					
	4	314,618,918	164,636,820	310,166,029	160,157,070
Due from other banks					
	5	219,276,982	88,331,856	113,038,786	82,037,767
		P574,823,896	P302,556,614	P463,284,746	P287,249,259

See Notes to the Financial Statements.