NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the note offering circular dated 4 September 2019 (together with the offering circular dated 5 February 2018, the **Offering Circular**). You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Circular. In accessing the attached Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Citigroup Global Markets Limited, ING Bank N.V., Singapore Branch, Merrill Lynch (Singapore) Pte. Ltd. and SMBC Nikko Capital Markets Limited (collectively, the **Dealers**) and Rizal Commercial Banking Corporation (the **Bank**) that: (1) you are outside the United States, the electronic mail address that you gave us and to which this electronic mail has been delivered, is not located in the United States and, to the extent you purchase the securities described in the attached Offering Circular, you will be doing so pursuant to Regulation S under the United States Securities Act of 1933, as amended (the **Securities Act**); and (2) that you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Bank, the Trustee, the Dealers, any Agent (each as defined in the Offering Circular) nor any of their respective employees, representatives or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version available on request.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the notes described therein.

Nothing in this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction. Any securities to be issued have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Accordingly, the attached Offering Circular may not be circulated, distributed, forwarded, delivered or redistributed, electronically or otherwise, to persons within the United States, and may not be relied upon as a basis for an investment decision or for any other purpose by any person within the United States.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. The expression “Prospectus Directive” means Directive 2003/71/EC (as amended or superseded, including by Regulation (EU) 2017/1129 (effective 21 July, 2019)) and includes any relevant implementing measure in the Member State.

Prohibition of sales to EEA retail investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail, and you may not purchase any notes by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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RIZAL COMMERCIAL BANKING CORPORATION

(A banking corporation organised and existing under Philippine laws)

Issue of
U.S.$300,000,000 3.00 per cent. Notes due 2024
issued pursuant to the
U.S.$2,000,000,000 Medium Term Note Programme

The U.S.$300,000,000 3.00 per cent. Notes due 2024 (the **Notes**) will be issued by Rizal Commercial Banking Corporation (the **Issuer** or the **Bank**) pursuant to its U.S.$2,000,000,000 Medium Term Note Programme (the **Programme**). The Notes will bear interest at the rate of 3.00 per cent. per annum from and including 11 September 2019 to but excluding 11 September 2024 and interest will be payable semi-annually on 11 March and 11 September of each year, commencing on 11 March 2020. The Notes will mature on 11 September 2024. Prior to maturity, the Notes will be redeemable by the Issuer, in whole but not in part, in the event of certain changes in Philippine tax law. See "*Terms and Conditions of the Notes*" in the Original Offering Circular (as defined below).

The Notes will constitute the direct, unconditional, unsubordinated and (subject to Condition 4) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law and subject to Condition 4) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for the listing and quotation of the Notes. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. Admission to the Official List of the SGX-ST and quotation of the Notes on the SGX-ST are not to be taken as an indication of the merits of the Issuer or the Notes. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000.

Investing in the Notes involves risks. See "*Investment Considerations*" in the Original Offering Circular and "*Supplemented Investment Consideration*" in this Note Offering Circular (as defined below) for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes are expected to be rated Baa2 by Moody's. Such rating of the Notes does not constitute a recommendation to buy, sell or hold the Notes and may be subject to revision or withdrawal at any time by such rating organisation. Such rating should be evaluated independently of any other rating of the Notes, of the Issuer's other securities or of the Issuer.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), or any state securities laws and are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the Securities Act (**Regulation S**).

The Notes offered outside the United States in reliance on Regulation S (the **Regulation S Notes**) will be evidenced by a Regulation S Global Note (as defined in the Original Offering Circular) deposited with a common depositary for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream**), and registered in the name of a nominee of such common depositary.

It is expected that delivery of the Regulation S Global Note will be made on 11 September 2019 or such later date as may be agreed (the **Closing Date**) by the Issuer and the Dealers.

For the purposes of the Notes only, this offering circular (the **Note Offering Circular**) is supplemental to, and should be read in conjunction with, and construed on the basis that the original offering circular dated 5 February 2018 (the **Original Offering Circular** and, together with this Note Offering Circular, the **Offering Circular**) is incorporated by reference and forms part of the Note Offering Circular. Words and expressions defined in the Original Offering Circular shall have the same meanings where used in this Note Offering Circular unless the context otherwise requires or unless otherwise stated herein.

Dealers

BofA Merrill Lynch **Citigroup** **ING** **SMBC Nikko**

The date of this Offering Circular is 4 September 2019.

The Bank accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Bank of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Citigroup Global Markets Limited, ING Bank N.V., Singapore Branch, Merrill Lynch (Singapore) Pte. Ltd. and SMBC Nikko Capital Markets Limited (the **Dealers**), the Trustee and the Agents have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. Accordingly, no representation or warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted by the Dealers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Dealers, the Trustee or the Agents. Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, any of the Dealers, the Trustee or any of the Agents that any recipient of this Offering Circular should purchase any Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors or on their behalf in connection with the Issuer and its subsidiaries and associates (collectively, the **Group**) or the issue and offering of the Notes. Each of the Dealers, the Trustee, the Agents and their respective affiliates and advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors undertakes to review the financial condition or affairs of the Issuer or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Dealers, the Trustee, the Agents or their respective affiliates or advisors.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Trustee, any Agent or any of the Dealers. Neither the delivery of this Offering Circular nor any sale made in connection herewith, under any circumstances, creates any implication.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, the Trustee, any Agent or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should determine for itself the relevance of the information contained in this Offering Circular and should make its own independent investigation of the Bank's financial condition and affairs, and its own appraisal of its creditworthiness. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank, the Trustee, any Agent or any of the Dealers to any person to subscribe for or to purchase any Notes. None of the Dealers, the Trustee or the Agents undertakes to review the financial condition or affairs of the Bank during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Trustee or any Agent.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply: that there has been no change in the affairs of the Bank, its subsidiaries and/or associated companies since its date (or the date on which this Offering Circular has been most recently amended or supplemented); that there has been no adverse change in the financial position of the Bank since the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information contained herein concerning the Bank is correct at any time subsequent to the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Trustee, the Agents and the Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes issued under the Programme of any information coming to their attention.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions from the Securities Act and applicable securities laws, Notes may not be offered, sold or (in the case of the Notes in bearer form) delivered within the United States or to U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Bank, the Trustee, the Agents or the Dealers represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Trustee, the Agents or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the EEA (including the United Kingdom), Japan, Hong Kong, the Philippines, Thailand, Singapore and the People's Republic of China (the **PRC**), for further information see "*Subscription and Sale*" in the Original Offering Circular.

In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Bank, the Trustee, the Agents or the Dealers makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information included in this Offering Circular is presented on a consolidated basis and has been derived from the consolidated financial statements of the Bank. The Bank's audited consolidated financial statements for the financial years ended 31 December 2017 and 2018 and the reviewed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the Philippine Financial Reporting Standards (**PFRS**).

NOTICE TO INVESTORS

IN CONNECTION WITH THE ISSUE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE FINAL TERMS MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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Prohibition of sales to EEA retail investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the **EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

Singapore Securities and Futures Act Product Classification: Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the **SFA**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018 (the **SF (CMP) Regulations**) that the Notes are "prescribed capital markets products" (as defined in the SF (CMP) Regulations) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

FINAL TERMS

Prohibition of sales to EEA retail investors: The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive.

MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Singapore Securities and Futures Act Product Classification: Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the **SFA**), the Issuer has determined, and hereby notifies all relevant persons (as defined in Regulation 3(b) of the Securities and Futures (Capital Markets Products) Regulations 2018 (the **SF (CMP) Regulations**) that the Notes are "prescribed capital markets products" (as defined in the SF (CMP) Regulations) and "Excluded Investment Products" (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

4 September 2019

RIZAL COMMERCIAL BANKING CORPORATION
Legal entity identifier: CIKZWI6KV077KV2E2J69

Issue of U.S.$300,000,000 3.00 per cent. Notes due 2024
under the US$2,000,000,000
Medium Term Note Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Original Offering Circular dated 5 February 2018 (the **Original Offering Circular**) as supplemented by the Note Offering Circular dated 4 September 2019 (together with the Original Offering Circular, the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular.

1.	Issuer:		Rizal Commercial Banking Corporation
2.	(a)	Series Number:	5
	(b)	Tranche Number:	1

	(c)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency or Currencies:		United States dollars (**U.S.$**)
4.	Aggregate Nominal Amount:		
	(a)	Series:	U.S.$300,000,000
	(b)	Tranche:	U.S.$300,000,000
5.	(a)	Issue Price:	9.751 per cent. of the Aggregate Nominal Amount
	(b)	Private banking rebate:	Not Applicable
6.	Net Proceeds:		U.S.$298,953,000
7.	Use of Proceeds:		The net proceeds from the issue of the Notes (after deducting underwriting fees and commissions associated with the issue of the Notes) will be applied by the Bank to support and finance and/or refinance the Bank's loans to customers or its own operating activities in eligible green and social categories as defined in the Bank's Sustainable Finance Framework. Eligible green categories are (i) renewable energy, (ii) green buildings, (iii) clean transportation, (iv) energy efficiency, (v) pollution prevention and control, (vi) sustainable water management, and (vii) environmentally sustainable management of living natural resources and land use. Eligible social categories are (i) affordable basic infrastructure, (ii) access to essential services, (iii) employment generation, (iv) affordable housing, and (v) socioeconomic advancement and empowerment. Sustainalytics, a leading independent environmental, social and governance research and ratings provider, has provided a second party opinion on the Bank's Sustainable Finance Framework and has concluded that the eligible categories for the use of proceeds are aligned with those recognised by the Green Bond Principles 2018, the Social Bond Principles 2018 and the Sustainability Bond Guidelines 2018, administered by the International Capital Markets Association and the ASEAN Green Bond Standards, the ASEAN Social Bond Standards and the ASEAN Sustainability Bond Standards 2018 administered by the

			ASEAN Capital Markets Forum. A copy of the Bank's Sustainable Finance Framework and the second party opinion can be found at https://www.rcbc.com/Others/Sustainability.
8.	(a)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 thereafter
	(b)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	U.S.$1,000
9.	(a)	Issue Date:	11 September 2019
	(b)	Interest Commencement Date:	Issue Date
10.	Maturity Date:		11 September 2024
11.	Interest Basis:		3.00 per cent. Fixed Rate (further particulars specified below)
12.	Redemption/Payment Basis:		Redemption at par
13.	Change of Interest Basis or Redemption/Payment Basis:		Not Applicable
14.	Put/Call Options:		None
15.	(a)	Status of the Notes:	Senior
	(b)	Date Board approval for issuance of Notes obtained:	29 July 2019
	(c)	Date regulatory approval/consent for issuance of Notes obtained:	None required
16.	Listing:		Singapore Exchange Securities Trading Limited
17.	Additional Tax considerations:		None

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18.	Fixed Rate Note Provisions:		Applicable
	(a)	Rate(s) of Interest:	3.00 per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	11 March and 11 September in each year up to and including the Maturity Date
	(c)	Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	U.S.$15.00 per Calculation Amount

	(d)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	Not Applicable
	(e)	Day Count Fraction:	30/360
	(f)	Determination Date(s):	Not Applicable
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	None
19.	Floating Rate Note Provisions:		Not Applicable
20.	Zero Coupon Note Provisions:		Not Applicable
21.	Index Linked Interest Note:		Not Applicable
22.	Dual Currency Interest Note Provisions:		Not Applicable

PROVISIONS RELATING TO REDEMPTION

23.	Issuer Call:	Not Applicable
24.	Investor Put:	Not Applicable
25.	Final Redemption Amount:	U.S.$1,000 per Calculation Amount
26.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required):	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

27.	Form of Notes:	Registered Notes
28.	Additional Financial Centre(s):	Not Applicable
29.	Talons for future Coupons to be attached to Definitive Notes:	No
30.	Details relating to Instalment Notes:	Not Applicable
31.	Redenomination applicable:	Redenomination not applicable
32.	Other terms or special conditions:	Not Applicable
33.	Ratings:	The Notes to be issued are expected to be rated Baa2 by Moody’s Investors Services, Inc.
34.	Governing law:	English law

DISTRIBUTION

35.	Method of distribution	Syndicated
	(a) If syndicated, names of Managers:	Citigroup Global Markets Limited, ING Bank N.V., Singapore Branch, Merrill Lynch (Singapore) Pte. Ltd. and SMBC Nikko Capital Markets Limited
	(b) Stabilising Manager(s) (if any):	Citigroup Global Markets Limited
	(c) If non-syndicated, name of relevant Dealer:	Not Applicable
36.	U.S. Selling Restrictions:	Reg. S (Category 1)
37.	Additional selling restrictions:	Not Applicable

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading of the Notes described herein pursuant to the US$2,000,000,000 Medium Term Note Programme of Rizal Commercial Banking Corporation.

OPERATIONAL INFORMATION

ISIN:	XS2044291974
Common Code:	204429197
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	Not Applicable
Delivery:	Delivery against payment
Names and addresses of additional Paying Agent(s) (if any):	Not Applicable

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of Rizal Commercial Banking Corporation

By: ______________________________
Duly authorised

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information has been derived from the audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2017 and 31 December 2018 and the reviewed consolidated financial statements of the Bank and its subsidiaries as of and for the six months ended 30 June 2019. The Bank's audited consolidated financial statements for the years ended 31 December 2017 and 31 December 2018 and the reviewed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with PFRS.

Investors should read the following summary of consolidated financial and other data relating to the Bank in conjunction with the financial statements and the related notes included elsewhere in this Offering Circular.

For convenience, Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate of ₱*51.24* = U.S.$1.00 as of 30 June 2019, being the closing exchange rate for Pesos against U.S. dollars dealt on that date on the Philippine Dealing System and published in the major Philippine financial press on that date. Such translations are provided for convenience only, are unaudited and should not be construed as representations that the Peso amounts referred to could have been, or could be, converted into U.S. dollars, as the case may be, at that or any other rate or at all.

Consolidated Statements of Income

	For the six months ended 30 June		
	2018	2019	2019
	₱ million		U.S.$ million
INTEREST INCOME ON			
Loans and receivables	12,775	15,717	307
Investment securities	1,376	2,865	56
Others	131	154	3
	14,282	18,736	366
INTEREST EXPENSE ON			
Deposit liabilities	2,692	4,893	95
Bills payable and other borrowings	1,915	3,214	63
	4,607	8,107	158
NET INTEREST INCOME	9,675	10,629	207
IMPAIRMENT LOSSES –NET	737	2,684	14
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	8,938	7,945	155
OTHER OPERATING INCOME			
Service fees and commissions	1,576	1,952	38
Foreign exchange gains – net	522	111	2
Trust fees	138	154	3
Trading and securities gains – net	-	3,158	62
Miscellaneous	898	749	15
	3,134	6,124	120
OTHER OPERATING EXPENSES			
Employee benefits	3,232	3,416	67
Occupancy and equipment – related	1,633	1,336	26

	For the six months ended 30 June		
	2018	2019	2019
	₱ million		U.S.$ million
Taxes and licences	1,124	1,477	29
Depreciation and amortisation	912	1,278	25
Trading and securities loss – net	108	0	0
Miscellaneous	2,557	3,000	59
	9,566	10,507	205
PROFIT BEFORE TAX	2,506	3,562	70
TAX EXPENSE	343	900	18
NET PROFIT	2,163	2,662	52
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTEREST	1	1	1
NET PROFIT ATTRIBUTABLE TO: PARENT COMPANY SHAREHOLDERS	2,162	2,661	51
Earnings Per Share (Annualised)			
Basic	3.11	2.77	0.06
Diluted	3.11	2.77	0.06

	For the year ended 31 December	
	2017[(1)]	2018
	₱ million	
INTEREST INCOME ON		
Loans and receivables	21,956	27,037
Investment securities	2,430	3,403
Others	378	493
	24,764	30,933
INTEREST EXPENSE ON		
Deposit liabilities	3,959	6,295
Bills payable and other borrowings	2,784	4,149
	6,743	10,444
NET INTEREST INCOME	18,021	20,489
IMPAIRMENT LOSSES –NET	2,155	1,899
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	15,866	18,590
OTHER OPERATING INCOME (CHARGES)		
Service fees and commissions	3,138	3,323
Trading and securities gains – net	900	-
Foreign exchange gains – net	798	843
Trust fees	279	278
Share in net earnings of associates	92	14
Miscellaneous	1,893	1,548
	7,100	6,006

	For the year ended 31 December	
	2017[1]	2018
	₱ million	
OTHER OPERATING EXPENSES		
Employee benefits	5,991	6,562
Occupancy and equipment – related	3,185	3,457
Taxes and licences	1,821	2,238
Depreciation and amortisation	1,914	1,821
Miscellaneous	4,904	5,325
	17,815	19,403
PROFIT BEFORE TAX	5,151	5,193
TAX EXPENSE / (INCOME)	841	872
NET PROFIT	4,310	4,321
NET PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	2	1
ATTRIBUTABLE TO: PARENT COMPANY SHAREHOLDERS	4,308	4,320
Basic and Diluted Earnings per share	3.08	2.62

Note: (1) Restated

Consolidated Statements of Financial Position

	As of 31 December		As of 30 June	
	2017	2018	2019	2019
		₱ million		U.S.$ million
Cash and other cash items	14,693	17,392	13,705	267
Due from the Bangko Sentral ng Pilipinas	58,801	56,495	55,309	1,079
Due from other banks	19,818	20,342	20,899	408
Loans arising from reverse repurchase agreement	9,831	10,032	3,856	75
Trading and investment securities –net	72,932	118,449	144,105	2,812
Loans and receivables – net	354,243	398,300	407,532	7,953
Investment in associates – net	417	423	2,714	53
Bank premises, furniture, fixtures and equipment – net	8,946	8,415	10,620	207
Investment properties – net	3,399	3,631	3,751	73
Deferred tax assets	1,896	2,094	2,085	41
Other resources – net	9,012	9,022	9,261	180
TOTAL RESOURCES	553,988	644,595	**673,837**	**13,151**
Deposit liabilities	388,412	432,399	418,638	8,170
Bills payable	43,967	56,001	64,612	1,261
Bonds payable	28,060	53,090	74,762	1,459
Subordinated debt	9,968	9,986	9,995	195
Accrued taxes, interest and other expenses	4,185	5,277	5,493	107
Other liabilities	12,369	15,672	16,896	330
TOTAL LIABILITIES	486,961	563,425	590,396	11,522
EQUITY	67,027	81,170	83,441	1,628
TOTAL LIABILITIES AND EQUITY	553,988	644,595	**673,837**	**13,151**

Selected Financial Ratios

	As of/for the year ended 31 December		As of/for the six months ended 30 June
	2017	2018	2019
Return on assets(1)...	0.8%	0.7%	0.8%
Return on shareholders' equity(2).......................	6.7%	5.8%	6.5%
Net interest margin(3)..	4.3%	4.0%	3.8%
Cost-to-income margin(4)	70.9%	73.2%	62.7%
Loans-to-deposits(5)..	93.4%	96.5%	98.6%
Tier I capital adequacy ratio(6)	12.5%	13.4%	13.3%
Total capital adequacy ratio(7)	15.5%	16.1%	16.1%
Total equity-to-total assets(8).............................	12.1%	12.6%	12.4%
Total non-performing loans to-total loans – excluding interbank loans(9)	1.3%	1.3%	2.1%
Total non-performing loans-to-total loans – including interbank loans(10)	1.3%	1.2%	2.1%
Allowances for loan impairment losses to total gross loans(11)..	2.1%	2.4%	2.1%
Allowances for loan impairment losses-to- total non-performing loans(12)	94.9%	97.1%	62.7%
Earnings per share (₱)(13)	3.08	2.62	2.77

Notes:

(1) Net income divided by average total resources for the period indicated.

(2) Net income divided by average total capital funds for the period indicated.

(3) Net interest income divided by average interest-earning assets.

(4) Total operating expenses divided by the sum of net interest income and other income.

(5) Total gross loans divided by total deposits.

(6) Tier I capital divided by total risk-weighted assets (computed using Basel III standards).

(7) Total capital divided by total risk-weighted assets (computed using Basel III standards).

(8) Total capital funds divided by total resources.

(9) Total non-performing loans divided by total loans excluding interbank loans.

(10) Total non-performing loans divided by total loans including interbank loans (computation revised from deducting 100 per cent. fully provided non-performing loans to deducting total specific provisions).

(11) Total allowance for loan impairment losses divided by total gross loans.

(12) Total allowance for loan impairment losses divided by non-performing loans.

(13) Net income divided by weighted average common shares.

USE OF PROCEEDS

The net proceeds from the issue of Notes (after deducting underwriting fees and commissions associated with the issue of the Notes) will be applied by the Bank to support and finance medium term to long-term asset growth and other general corporate purposes, unless otherwise specified in the Final Terms.

SUPPLEMENTED INVESTMENT CONSIDERATIONS

The Bank is subject to increased oversight by Bangko Sentral ng Pilipinas (BSP) and certain remedial measures that do not apply to other Philippine banks because of an alleged unauthorised transfer of funds involving the Bank in February 2016. As a result, the Bank's ability to implement its growth strategy and its results of operations may be affected.

On 5 February 2016, four allegedly unauthorised fund transfers totalling U.S.$ 81.00 million were routed from a U.S. dollar account owned by the Bank of Bangladesh, the central bank of Bangladesh, with the Federal Reserve Bank of New York (**FRBNY**) into four accounts maintained at the Bank (the **BOB Incident**). The fund transfers originated from payment requests that were allegedly not initiated by the legitimate account owner. Over the course of several days, the funds were transferred and withdrawn from the Bank, before being eventually remitted to casinos. The Bank's internal investigation and assessment of the BOB Incident determined, among other things, that several rogue employees of the Bank colluded to falsify commercial documents and override the Bank's internal Anti-Money Laundering (**AML**) alerts triggered by the suspicious transactions.

In August 2016, a special examination by the BSP as a result of the BOB Incident concluded that the Bank had conducted business in an unsafe or unsound manner by operating with a grossly inadequate money laundering and terrorist financing prevention risk management and control framework. The Monetary Board of the BSP approved the imposition of supervisory action on the Bank to pay a monetary penalty in the amount of ₱ 1.00 billion in relation to the completed special examination. Additionally, the Monetary Board of the BSP imposed a number of temporary restrictions on the Bank's activities and permanent requirements designed to strengthen the Bank's corporate governance and improve the Bank's prompt corrective action framework. Temporary restrictions imposed on the Bank by the BSP included a stay on the approval of any new branch license requests, the prohibition against expanding the Bank's money service businesses through new relationships, and a prohibition against any new wire transfer or remittance-related products and services until further notice by the BSP. The permanent and ongoing requirements imposed by the BSP include, among other things, (i) reconstituting the Bank's Board, Audit Committee, Corporate Governance Committee and Risk Oversight Committee and organisational structure; (ii) implementing plans, processes and procedures designed to improve the Bank's anti-money laundering and terrorist financing prevention framework and controls, and (iii) ensuring the effective implementation of the Bank's money laundering prevention programme and the taking of appropriate actions to correct conditions resulting from unsafe or unsound banking practices. The BSP's remedial measures or other possible future proceedings could adversely affect the Bank's ability to implement its growth strategy or results of operations. As of date, there is only one remaining temporary restriction, which is the restriction on establishing new money service business relationships.

The Bank fully recognised the BSP's ₱ 1.00 billion fine as part of miscellaneous expenses in its 2016 consolidated statements of profit or loss, and it paid this penalty in full ahead of the August 2017 deadline set by the BSP. In addition, in the immediate aftermath of the BOB Incident, the Bank lost a significant portion of its deposits and its cost of funding increased, which had an adverse effect on the Bank's income performance in 2016. As of the date of this Offering Circular, the Bank continues to operate pursuant to certain temporary restrictions imposed on the Bank by the BSP following the August 2016 special examination, though several of the temporary restrictions have recently been lifted and its deposit levels have returned to previous levels. The Bank has otherwise fully complied with, implemented and/or is continuing to implement all permanent and ongoing requirements imposed by the BSP.

Moreover, the Bank and its current and former officers and employees who had significant involvement in the BOB Incident have taken part in investigations, regulatory proceedings and litigation stemming from the same. On 18 November 2016, the Anti-Money Laundering Council (**AMLC**) filed a criminal complaint against current and former officers of the Bank, including Ismael S. Reyes, Bridgette R. Capiña and Romualdo S. Agarrado, for violation of Section 4(f) of R.A. No. 9160, as amended, (**AMLA**) in connection with the BOB Incident. In a Resolution dated 5 February 2018, the Philippine Department of Justice (**DOJ**) found probable cause against Reyes, Capiña, Agarrado and the other former officers of the Bank and recommended the filing of the corresponding Information against them. On 22 March 2018, Reyes, Capiña and Agarrado, as well as Raul Victor B. Tan and Nestor O. Pineda, timely filed their Motions for Reconsideration, which remain unresolved to date, together with their Motion for Inhibition. On 31 January 2019, the Bank of Bangladesh filed a complaint with the United States District Court Southern District of New York principally against the Bank, its current and former officers who had significant involvement in the BOB Incident, a money service business and its principals, junket operators and the casinos where the funds were eventually remitted, claiming that they allegedly conspired with North Korean hackers to steal funds from its FRBNY bank account and launder the same. On 6 March 2019, the Bank and Ismael S. Reyes filed a complaint for injunction and damages against the Bank of Bangladesh with the Regional Trial Court of Makati City, praying that the Bank of Bangladesh, its agents, representatives, officers and employees be enjoined from committing further acts of defamation and harassment against the Bank and Mr. Reyes, among others. It is possible that U.S. or other regulatory authorities may seek to bring charges or enforcement actions in the United States against the Bank stemming from the BOB Incident, although the Bank has not received any information request from U.S. or other authorities in relation thereto.

As of the date of this Offering Circular, the Bank has not been properly served with summons in connection with the lawsuit brought by the Bank of Bangladesh, and has filed a motion to dismiss the complaint against it in its entirety with prejudice. However, the Bank may not be successful in seeking dismissal of the lawsuit. In the event the case proceeds to trial, the Bank cannot guarantee that it would prevail, and it could be subject to significant monetary penalties, sanctions or other penalties, which may exceed the U.S.$81.00 million quantum of the unauthorised fund transfers and may not be covered by insurance. Moreover, there can be no assurance that the BSP or other regulators or government agencies will not impose additional penalties or requirements on the Bank, including extending or increasing current permanent or ongoing requirements. Even if the Bank were to prevail in the lawsuit initiated by the Bank of Bangladesh or any other enforcement actions in connection with the BOB Incident, and prevail in the case it had initiated against the Bank of Bangladesh, it may nonetheless suffer reputational harm from such lawsuits or regulatory proceedings, and/or it may have to spend significant amounts of management time and financial resources defending itself and prosecuting its own claim against the Bank of Bangladesh.

The Notes may not be a suitable investment for all investors seeking exposure to sustainable assets.

The Bank may issue Notes where the use of proceeds is specified to be for the financing and/or refinancing of specified “green” or “sustainability” projects of the Bank or any of its subsidiaries, in accordance with certain prescribed eligibility criteria (**Sustainable Notes**).

In connection with the issue of Sustainable Notes, the Bank may request a sustainability rating agency or sustainability consulting firm to issue an independent opinion (a **Compliance Opinion**) confirming that any Sustainable Notes are in compliance with the Sustainable Bond Principles prepared and published by the International Capital Market Association (the **ICMA Sustainability Bond Guidelines 2018**) and the ASEAN Capital Markets Forum (the **ASEAN Sustainability Bond Standards 2018**). The ICMA Sustainability Bond Guidelines 2018 and ASEAN Sustainability Bond Standards 2018 are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the sustainable bond market. While the ICMA Sustainability Bond Guidelines 2018 and ASEAN Sustainability Bond Standards 2018 do provide a high level framework, there is currently no market consensus on what precise attributes are required for a particular project to be defined as “green” or “sustainable”, and therefore no assurance can be provided to potential investors that the green or sustainable projects to be specified in the use of proceeds will meet all investors’ expectations regarding sustainability performance or continue to meet the relevant eligibility criteria. Although applicable sustainable projects are expected to be selected in accordance with the categories recognized by the ICMA Sustainability Bond Guidelines

2018 and ASEAN Sustainability Bond Standards 2018, and are expected to be developed in accordance with applicable legislation and standards, there can be no guarantee that adverse environmental and/or social impacts will not occur during the design, construction, commissioning and/or operation of any such green or sustainable projects. Where any negative impacts are not sufficiently mitigated, green or sustainable projects may become controversial, and/or may be criticized by activist groups or other stakeholders.

Potential investors should be aware that any Compliance Opinion will not be incorporated into, and will not form part of, this Note Offering Circular. Any such Compliance Opinion may not reflect the potential impact of all risks related to the structure of the relevant Sustainable Notes, their marketability, trading price or liquidity or any other factors that may affect the price of value of the Sustainable Notes. Any such Compliance Opinion is not a recommendation to buy, sell or hold securities and is only current as of its date of issue. Prospective investors must determine for themselves the relevance of any such Compliance Opinion, and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Instruments. Currently, the providers of such compliance opinions and certifications are not subject to any specific regulatory or other regime or oversight.

Further, although the Bank may agree at the Issue Date of any Sustainable Notes to a certain allocation and/or impact reporting and to use the proceeds for financing and/or refinancing of green or sustainable projects (as specified in the Use of Proceeds), it would not be an event of default under the Sustainable Notes if (i) the Bank were to fail to comply with such obligations or were to fail to use the proceeds in the manner specified in the applicable terms and conditions, (ii) the Bank were to fail to comply with the provisions of the Bank's Sustainable Finance Framework, and/or (iii) the Compliance Opinion were to be withdrawn. Any failure to use the net proceeds of any Sustainable Notes in connection with green or sustainable projects, and/or any failure to meet, or to continue to meet, the investment requirements of certain environmentally focused investors with respect to such Sustainable Notes may affect the value and/or trading price of the Sustainable Notes, and/or may have consequences for certain investors with portfolio mandates to invest in green or sustainable assets which may cause one or more of such investors to dispose of the Sustainable Notes held by them which may affect the value, trading price and/or liquidity of the relevant Sustainable Notes.

Neither the Bank nor the Dealers make any representation as to the suitability for any purpose of any Compliance Opinion or whether any Sustainable Notes fulfil the relevant environmental and sustainability criteria. Prospective investors should have regard to the eligible sustainable bond projects and eligibility criteria described in the applicable Use of Proceeds. Each potential investor of the Sustainable Notes should determine for itself the relevance of the information contained in this Note Offering Circular and its purchase of any Sustainable Notes should be based upon such investigation as it deems necessary.

In the event that any such Sustainable Notes are listed or admitted to trading on any dedicated "green", "environmental", "sustainable", or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect environmental, sustainability or social impact of any projects or uses, the subject of or related to, any Eligible Green and/or Social Projects (as defined in the Bank's Sustainable Finance Framework). Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Instruments or, if obtained, that any such listing or admission to trading will be maintained during the life of the Sustainable Notes.

CAPITALISATION AND INDEBTEDNESS OF THE BANK

The following table sets out the reviewed consolidated capitalisation and indebtedness of the Bank as of 30 June 2019. This table should be read in conjunction with the Bank's reviewed financial statements included elsewhere herein. The translation of Peso amounts into U.S. dollars at the specified rates herein is provided solely for convenience.

	As of 30 June 2019	
	(₱ million)	(U.S.$ million)[1]
	(actual)	
Indebtedness		
Short-term liabilities		
Deposit liabilities	404,174	7,888
Interbank loans, bills payable and other liabilities	138,424	2,701
Total short-term liabilities	542,598	10,589
Long-term liabilities		
Deposit liabilities	14,463	282
Interbank loans, bills payable and other liabilities	950	19
Subordinated notes................................	9,995	195
Total long-term liabilities.........................	25,408	496
Capital funds		
Issued share capital[2]	19,359	378
Capital paid in excess of par value........	32,061	626
Retained earnings		
Appropriated	3,057	60
Unappropriated	28,017	547
Other equity adjustments......................	928	18
Minority interest	19	0
Total capital funds..................................	83,441	1,629
Total capitalisation and indebtedness[3][4]	**651,447**	12,714

Notes:

(1) The exchange rate used is ₱51.24= U.S.$1.00 as of 30 June 2019.

(2) As of 30 June 2019, 1,935,628,896 shares of common stock were issued and outstanding at ₱10 par value and 267,410 shares of preferred stock were issued and outstanding at ₱10 par value.

(3) As of 30 June 2019, the Bank had total outstanding contingent liabilities of ₱284.8billion (U.S.$ 5.6 billion), which includes derivatives, trust department accounts, outstanding guarantees, foreign exchange bought, foreign exchange sold, inward bills for collection and others.

(4) As a result of the merger, the Bank issued 315.3 million shares which increased the Share Capital and APIC of ₱13.7 billion and treasury shares of ₱13.7 billion.

RECENT DEVELOPMENTS

Six Months of Fiscal 2019 Performance Highlights

For convenience, Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate of ₱51.24 = U.S.$1.00 as of 30 June 2019, being the closing exchange rate for Pesos against U.S. dollars dealt on that date on the Philippine Dealing System and published in the major Philippine financial press on that date. Such translations are provided for convenience only, are unaudited and should not be construed as representations that the Peso amounts referred to could have been, or could be, converted into U.S. dollars, as the case may be, at that or any other rate or at all.

The following is a summary discussion of the changes in the financial information of the Bank as of and for the six months ended 30 June 2019.

Comparison of the Reviewed Consolidated Statement of Financial Position as of 30 June 2019 to the Audited Statement of Financial Position as of 31 December 2018

The Bank's Total Assets was recorded at ₱673.837 billion as of 30 June 2019.

Cash and other Cash Items decreased by 21.20% or ₱3.687 billion from ₱17.392 as of 31 December 2018 to ₱13.705 billion as of 30 June 2019.

Loans arising from reverse repurchase agreement decreased by 61.56% or ₱6.176 billion as of 30 June 2019 from ₱ 10.032 billion as of 31 December 2018 to P3.856 billion as of 30 June 2019 mainly due to lower placements with the BSP.

Total trading investment securities, representing 21.39% of Total Resources as of 30 June 2019, increased by 21.66% or ₱25.656 billion from ₱118.449 billion as of 31 December 2018 to ₱144.105 billion as of 30 June 2019 attributable to 188.85% or ₱41.521 billion increase in Financial Assets at Fair Value through Other Comprehensive Income. Investment Securities at amortized cost, on the other hand, decreased by 18.40% or ₱16.353 billion as of 30 June 2019 mainly due to sale of securities, it represented 10.77% of Total Resources.

Loans and Receivables-net was recorded at ₱407.532 billion and represented 60.48% of Total Resources as of 30 June 2019.

Investment in Associates, net, increased by 541.61% or ₱2.291 billion from ₱423 million to ₱2.714 billion as of 30 June 2019 mainly due to the recognition of 8.53% ownership in Hanjin Heavy Industry and Construction Co. Ltd.

Bank Premises, Furniture, Fixtures & Equipment, net increased by 26.20% or ₱2.205 billion from ₱8.415 billion to ₱10.620 billion as of 30 June 2019 attributable to the recognition of right of use of asset in accordance with the Bank's adoption of PFRS 16 leases.

Deposit liabilities were recorded at ₱418.638 billion as of 30 June 2019 and represented 62.13% of Total Resources. Demand deposits grew by 7.71% or ₱4.348 billion from ₱56.413 to ₱60.761 billion and accounted for 9.02% of Total Resources; Savings Deposits were recorded at ₱172.853 billion and accounted for 25.65% of Total Resources. Time deposits reached ₱185.024 billion and accounted for 27.46% of total resources as of 30 June 2019.

Bills payable increased by 15.38% or ₱8.611 billion from ₱56.001 billion to ₱64.612 billion as of 30 June 2019 primarily due to the borrowing through the BSP Overnight Borrowing facility; it represented 9.59% of total resources. Bonds payable increased by 40.82% or P21.672 billion from ₱53.090 billion to ₱74.762 billion as of 30 June 2019 attributable to a ₱15 billion green bonds issuance.

Other Liabilities increased by 7.81% or ₱1.224 billion from ₱15.672 billion to ₱16.896 billion as of 30 June 2019 primarily due to the recognition of lease liability in accordance with the Bank's adoption of PFRS 16.

Total liabilities stood at ₱590.396 billion as of 30 June 2019 and represented 87.62% of Total Resources.

Net Unrealized Gains/(Losses) on Financial Assets At Fair Value Through Other Comprehensive Income increased by 46.14% or ₱718 million from ₱1.556 billion to ₱2.274 billion as of 30 June 2019.

Total Capital Funds was recorded at ₱83.441 billion as of 30 June 2019 and accounted for 12.38% of Total Resources.

Comparison of the Reviewed Consolidated Statement of Income for the Six Months Ended 30 June 2019 to the Reviewed Consolidated Statement of Income for the Six Months Ended 30 June 2018

Net Interest Income

Total interest income increased by 31.19% or ₱4.454 billion from ₱14.282 billion for the six-month period ended 30 June 2018 to ₱18.736 billion for the six-month period ended 30 June 2019 and accounted for 111.84% of total operating income. Interest income on loans and receivables went up by 23.03% or ₱2.942 billion from ₱12.775 billion for the six-month period ended 30 June 2018 to ₱15.717 billion and accounted for 93.82% of total operating income as of 30 June 2019. The increase is mainly due to increase in average yield and volume of Loans and Receivables. Interest income on investment securities increased by 108.21% or ₱1.489 billion from ₱1.376 billion for the six-month period ended 30 June 2018 to ₱2.865 billion mainly due to increase in volume and yield of investment securities, it accounted for 17.10% of total operating income for the six-month period ended 30 June 2019. Other interest income increased by 17.56% or ₱23 million from ₱131 million to ₱154 million primarily as a result of increase in USD interest rate.

Total interest expense increased by 75.97% or ₱3.500 billion from ₱4.607 billion for the six-month period ended 30 June 2018 to ₱8.107 billion for the six-month period ended 30 June 2019 and accounted 48.39% of total operating income. Interest expense on deposit liabilities grew by 81.76% or ₱2.201 billion from ₱2.692 billion for the six-month period ended 30 June 2018 to ₱4.893 billion for the six-month period ended 30 June 2019 primarily as a result of increase in time deposit level in terms of ADB coupled by increase in average cost; it represented 29.21% of total operating income. Interest expense on bills payable and other borrowings increased by 67.83% or ₱1.299 billion from ₱1.915 billion for the six-month period ended 30 June 2018 to ₱3.214 billion for the six-month period ended 30 June 2019 mainly due to increase in volume and yield of Bills Payable and Bonds Payable.

As a result, net interest income increased by 9.86% or ₱954 million from ₱9.675 billion to ₱10.629 billion as of 30 June 2019.

Other Operating Income

The Group booked higher impairment losses at ₱2.684 billion for the six-month period ended 30 June 2019, up by 264.18% or ₱1.947 billion from ₱737 million for the six-month period ended 30 June 2018 and represented 16.02% of total operating income. Increase in impairment losses net was mainly due to additional provisions following the Bank's ECL methodology.

The Other operating income increased by 95.41% or ₱2.990 billion from the comparable period's ₱3.134 billion to ₱6.124 billion for the six-month period ended 30 June 2019, this accounted for 36.55% of total operating income, and is broken down as follows:

• Trading and securities gain-net increased by ₱3.266 billion from a loss of ₱108 million for the six-month period ended 30 June 2018 to a gain of ₱3.158 billion as of 30 June 2019, attributable realized trading gain from investment securities, it accounted 18.85% of total operating income;

• Service fees and commissions went up by 23.86% or ₱376 million from ₱1.576 billion for the six months period ended 30 June 2018 to ₱1.952 billion for the six months period ended 30 June 2019 largely due to higher credit card fees, loans and trade fees, and brokering and securities fees, it accounted 11.65% of total operating income;

• Trust fees went up by 11.59% or ₱16 million from ₱138 million for the six-month period ended 30 June 2018 to ₱154 million for the six-month period ended 30 June 2019 attributable to increase in Mortgage Trust Indenture;

• Foreign exchange gains was recorded at ₱111 million as of 30 June 2019 down by 78.74% or ₱411 million from last year's ₱522 million; and

• Miscellaneous income decreased by 16.59% or ₱149 million from ₱898 million for the six-month period ended 30 June 2018 to ₱749 million for the six-month period ended as of 30 June 2019, attributable to lower gain from sale of assets and lower other miscellaneous income.

Other Operating Expense

Operating expenses, accounted for 62.72% of Total Operating Income, increased by 11.09% or ₱941 million from 9.566 billion for the six-month period ended 30 June 2018 to ₱10.507 billion for the six-month period ended 30 June 2019 due to the following:

• Manpower costs increased by 5.69% or ₱184 million from ₱3.232 billion to ₱3.416 billion, as a result of regular merit and salary adjustment. It consumed 20.39% of the total operating income;

• Occupancy and equipment-related increased by 18.18% or ₱297 million from ₱1.633 billion to ₱1.336 billion attributable to escalation of rental rates, and equipment maintenance, it consumed 7.97% or Total operating income;

• Taxes and licenses grew by 31.41% or ₱353 million from ₱1.124 billion to ₱1.477 billion attributable to higher gross receipt tax as a result of higher gross income;

• Depreciation and amortisation was recorded at ₱1.278 million, up by 40.13% or ₱366 million from ₱912 million; and

• Miscellaneous expenses went up by 17.32% or ₱443 million to settle at ₱3.000 billion from ₱2.557 billion primarily as a result of higher management and professional fees and other credit card related expenses.

Tax expense

Tax expense increased by 162.39% or ₱557 million from ₱343 million for the six-month period ended 30 June 2018 to ₱900 million as of 30 June 2019 mainly due to higher taxable income for the period and higher final tax paid on interest income from investment securities.

Net Profit

Net profit attributable to non-controlling interest settled at ₱516 thousand for the six-month period ended 30 June 2019.

Overall, net income increased by 23.07% or ₱499 million from ₱2.162 billion for the six-month period ended 30 June 2018 to ₱2.661 billion for the six-month period ended 30 June 2019.

There were no significant elements of income or loss that did not arise from the Bank's continuing operations.

PFRS 16

PFRS 16 requires lessees to account for leases "on-balance sheet" by recognising a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset subject to depreciation or amortisation. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are applied, the accounting is similar to operating lease accounting under PAS 17, where lease payments are recognised as expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

PFRS 16 took effect on 1 January 2019.

The adoption PFRS 16 resulted in the Bank accounting for its leases, as a lessee, "on-balance sheet" by recognising a "right-of-use" asset and a lease liability. Please refer to note 3.1. and 3.2. of the Bank's reviewed financial statements as of and for the six months ended 30 June 2019 for further details on the impact of the adoption of PFRS 16.

PFRS 9

Provisions

In 2018, the Bank adopted the full version of PFRS 9 requires the Bank to record an allowance for Expected Credit Losses (**ECL**) for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

The Group has established a policy to perform an assessment, at the end of each reporting period, of 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. The Group classifies its loans into the following stages:

Stage 1: When loans are first recognised, the Group recognises an allowance based on the twelve-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: When a loan is considered as credit impaired, the Group records an allowance for the lifetime ECL.

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

Probability of Default – is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

Loss Given Default – is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including the realization of any collateral.

Exposure At Default – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Under existing BSP regulations, a general provision for loan losses shall be established as follows: (i) 5% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

In accordance with BSP guidelines, the Bank makes the appropriate specific loan loss allowance as follows:

Risk Classification	**Loan loss allowance (% of principal amount of loan)**
Especially mentioned	5.0%
Sub-standard (secured)	10.0%
Sub-standard (unsecured)	25.0%
Doubtful	50.0%
Loss	100.0%

The specific loan loss provision determined under BSP guidelines may differ from that determined under PAS 39. PAS 39 requires the level of loan loss provisioning to be determined on the basis of future recoverable amounts of the loans and receivables discounted at their original effective interest rates. If the loan or receivable has a variable interest rate, the discount rate for measuring the recoverable amount is the current effective interest rate determined under the contract. If the loan or receivable is collateralised and foreclosure is probable, the Bank should measure the level of loan loss provisioning based on the fair value of the collateral.

The BSP conducts an annual audit on the Bank's individual loans to determine the classifications the Bank must apply to its loans when reporting classified loans to the BSP. The following is a summary of the risk classification of the aggregate loan portfolio (as a percentage of total outstanding loans) and allowance for impairment of the Bank as reported to the BSP on a non-consolidated basis as of December 31, 2017.

	As of 31 December	
(₱ millions, except percentages)	**2017**	
	Amount	**%**
Risk classification		
Especially mentioned	116.83	4.30
Sub-standard – secured	1,207.20	44.30
Sub-standard – unsecured	456.66	16.80
Doubtful	686.72	25.20
Loss	257.83	9.50
Total classified	**2,725.24**	**100.00**
Unclassified	245,500.76	
Total	**248,226.00**	**100.00**
Allowance for impairment		
Classified	841.19	21.20
Unclassified	3,130.74	78.80
Total	**3,971.93**	**100.00**

With the full adoption of PFRS 9 on 1 January, 2018, the Bank began assessing on a forward-looking basis the ECL for all debt instruments carried at amortised cost and fair value through other comprehensive income, together with loan commitments and financial guarantee contracts. The allowance for losses is based on the ECL associated with the probability of default of a financial instrument in the next twelve 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 recognised. If the financial asset meets the definition of a purchased or originated credit impaired, the allowance for losses is based on the change in the ECL over the life of the asset. Accordingly, the Bank began applying a new ECL methodology as of 1 January, 2018 according to the following classifications:

- Stage 1: When a debt security is first recognised, the Bank recognises credit losses based on the twelve-month ECL. Stage 1 debt security also include facilities where the credit risk has improved and security has been reclassified from Stage 2.

- Stage 2: When a debt security has shown a significant increase in credit risk since origination, the Group recognises an allowance for the lifetime ECL. Stage 2 debt security also include facilities where the credit risk has improved and the security has been reclassified from Stage 3.
- Stage 3: When a debt security is considered as credit impaired, the Bank recognises an allowance for the lifetime ECL.

The following table shows the Bank's ECL model for its loan portfolio, credit card receivables and other as of 31 December 2018. In the following tables, "Floor" represents the provision to meet BSP's required minimum allowance for credit losses of 1.00%.

ECL Methodology for Loan Portfolio

	Total exposure at default	Percentage (%)	Total ECL	Floor Total	Total ECL (including floor total)
Risk classification					
A..	105	0.04	0	1	1
A+	46	0.02	0	0	0
BBB	8,356	3.04	1	19	19
BBB-	10,523	3.83	2	91	93
BB+	20,028	7.29	5	193	198
BB	33,543	12.21	8	321	329
BB-	24,472	8.90	13	223	236
B+	59,125	21.51	81	505	586
B	65,806	23.94	203	464	667
B-	47,276	17.20	464	106	570
CCC+ and below	612	0.22	36	0	36
Especially Mentioned	338	0.12	66	0	66
Substandard	1,821	0.66	740	0	740
Doubtful	623	0.23	290	0	290
Loss	130	0.05	130	0	130
Unrated	2,021	0.74	19	12	32
Total Loan ECL	274,825	100.00	2,058	1,937	3,995

ECL Methodology for Credit Card Receivables

	Total exposure at default	**Total ECL**	**Floor Total**	**Total ECL (including floor total)**
Risk classification				
Stage 1	14,156	464	9	472
Stage 2	413	163	0	163
Stage 3	892	757	0	757
Total Credit Card Receivables ECL	**15,461**	**1,383**	**9**	**1,392**

ECL Methodology for Others and Total ECL Amounts

	Total exposure at default	**Total ECL**	**Floor Total**	**Total ECL (including floor total)**
Others Total	246	15	0	15
Total ECLs (including loans, credit card receivables and others)	300,054	3,457	2,041	5,497

(₱ millions)	Year ended December 31 2016	2017	2018	6 months ended June 30 2019
Total parent allowance................................	4,792	4,942	7,041	7,110
Credit Card Receivables.............................	556	533	1,300	1,488
Unquoted Debt Securities Classified as Loans...	766	835	1,162	1,255
Accrued Interest Receivables	36	46	30	122
Accounts Receivable	169	153	454	1,040
Sales Contract Receivables........................	31	31	31	33
Net allowance for loans...........................	**3,234**	**3,344**	**5,016**	3,172

Allowance for impairment on classified accounts is based on the total principal balance outstanding. Loans classified as "loss" assets are generally written off by the Bank in accordance with BSP guidelines. The Board of Directors of the Bank has discretion as to the frequency of write-off provided that these are made against provisions for impairment or against current operations. The prior approval of the Monetary Board is required to write off loans to the bank's directors, officers, stockholders and their related interests.

As of 30 June 2019, the Bank's allowance for impairment for NPLs to gross NPL ratio was 62.69 per cent.

In addition to making specific allowances for impairment based on the risk classification of its loan portfolio, the Bank's allowances for impairment also include general allowances of one per cent. of the gross loan portfolio plus five per cent. of unclassified restructured loans. Generally, movements in the Bank's allowances for impairment represent provisions charged to operations. On a monthly basis, all past-due accounts are updated for movements according to "Aging of Past Due Accounts" reports, which are summarised for portfolio tracking purposes and used to implement proactive strategies in accounts management.

Allocation of Provisions

The following table sets out the Bank's reconciliation of its balance of reserves or loan losses on a consolidated basis over the periods indicated:

(₱ millions)	As of 31 December 2017	2018	As of 30 June 2019
Balance of reserves at beginning of period	7,411	7,993	10,291
Provisions during the year	2,076	1,879	2,678
Impact of adoption of PFRS 9 (2014)	-	1,680	-
Account written off / others	(1,494)	(1,261)	(1,920)
Balance at the end of the period	**7,993**	**10,291**	**11,049**

Business

Appointment of Executive Officers

On 29 October 2018, the Bank appointed Horacio E. Cebrero III as Treasurer and Head of the Treasury Group effective 5 November 2018.

On 10 December 2018, the Bank appointed Eugene S. Acevedo as Deputy Chief Executive Officer effective 2 January 2019 in preparation for the retirement of the Bank's current President and Chief Executive Officer Gil A. Buenaventura on 30 June 2019. On 24 June 2019, the Bank appointed Eugene S. Acevedo as President and Chief Executive Officer, effective 1 July 2019.

ePiso

In May 2018, the Bank launched ePiso, the first digital currency in the Philippines, which can be managed, stored and used through the password-protected ePiso Mobile Wallet application. The ePiso Mobile Wallet enables users, including consumers, merchants, agents, sub-distributors and distributors to, among others, pay bills conveniently, make purchases, receive payments, transfer funds from one ePiso Mobile Wallet application user to another and view transactions.

Merger with RCBC Savings Bank (*RSB*)

In November 2018, the Bank's Board of Directors approved the merger plan between the Bank and RSB, a thrift bank and a wholly-owned subsidiary of the Bank. The merger between the Bank and RSB (with the Bank as the surviving entity) became effective on 22 July 2019 following receipt of stockholders' and regulatory approvals. The Bank believes that the merger will contribute to the facilitation of the following objectives: (1) more efficient capital deployment, (2) more efficient compliance with the Basel 3 liquidity ratios, (3) optimal coordination between the branch banking networks of the Bank and RSB, (4) medium-term improvement in the funding economics, and (5) operational cost efficiencies.

Partnerships with Kansai Urban Banking, Minato Bank and Kookmin Bank

In May 2018, the Bank signed a business/cooperation agreement with two banking units of the Kansai Mirai Financial Group, Inc., Osaka-based Kansai Urban Banking Corporation and Kobe-based Minato Bank. The partnerships aim to assist potential Japanese investors by providing information on the business outlook on the Philippines, to promote business tie-ups between the banks' clients and to help small and medium Japanese enterprises penetrate the domestic market, among others.

In September 2018, the Bank signed a business cooperation agreement with Kookmin Bank to, among others, provide banking services and financial information assistance to Korean and Philippine firms.

Capital Markets Transactions

On 15 March 2018, the Bank issued U.S.$300 million unsecured Senior Notes due 2023 (the **2023 Senior Notes**). On 20 April 2018, the Bank issued a second tranche amounting to U.S.$150 million, which was consolidated and forms part of a single series with the 2023 Senior Notes.

On 16 July 2018, the Bank's stock rights offering of 535,710,378 shares were listed in the Philippine Stock Exchange. As of 30 September 2018, the total issued and outstanding capital stock of the Bank is comprised of 1,935,628,775 shares.

On 18 August 2018, the Bank entered into a U.S.$300 million syndicated loan facility with a syndicate of international banks. The facility was fully drawn on 28 August 2018 and will mature on February 26, 2021.

On 28 September 2018, the Bank issued ₱3,580 billion worth of fixed rate long term negotiable certificates of deposits which carry a coupon rate of 5.50 per cent. and will mature on 28 March 2024.

On 1 February 2019, the Bank issued ₱ 15 billion worth of ASEAN Green Bonds due in 2020. The Green Bonds carry a coupon of 6.7315% per annum. This issuance is the first green bond from the Philippines issued under the ASEAN Green Bond Standards.

On 4 June 2019, the Bank issued ₱ 8 billion worth of ASEAN Sustainability Bonds due in 2021. The Green Bonds carry a coupon of 6.15% per annum. This issuance is the first sustainable bond from the Philippines issued under the ASEAN Sustainability Bond Standards 2018.

On 29 July 2019, the Bank approved the increase of the Bank's domestic Peso bond and commercial paper programme to ₱100 billion, subject to regulatory approval.

On 25 July 2019, BSP has approved the Bank's request to exercise a call option and redeem its ₱10 billion, 5.375 per cent. Tier 2 Capital Notes prior to maturity on 26 September 2019.

Legal Proceedings

HHIC-Philippines, Inc. Rehabilitation Proceedings

On various dates, the Bank extended U.S. dollar denominated loans to HHIC-Phil Inc. (**HHIC Phil**) in the form of an export advance loan facility to finance 80% of the construction cost of specific shipbuilding contracts, net of any advance payments/installment payments by a shipowner. The facility is secured by a deed of assignment of the receivables at 80% of the loan value and a comprehensive surety agreement executed by Hanjin Heavy Industries & Construction Co., Ltd. (**HHIC Korea**), a corporation incorporated in the Republic of Korea and the parent company of HHIC Phil. Loan repayments are matched against the milestone installment payments of the shipowner.

On 9 January 2019, HHIC Phil filed a petition for corporate rehabilitation (**Petition**) under Republic Act No. 10142, otherwise known as the Financial Rehabilitation and Insolvency Act of 2010 (**FRIA**) before the Regional Trial Court of Branch 72, Olongapo City (the **Rehabilitation Court**), praying that the Rehabilitation Court issue (a) a Commencement Order pursuant to Section 16 of the FRIA, (b) an Order giving due course to the Petition and to the proposed rehabilitation of HHIC Phil after due proceedings, and declare HHIC Phil as fully rehabilitated upon the successful implementation of the Rehabilitation Plan annexed thereto.

The Rehabilitation Court in a 14 January 2019 Commencement Order and a 16 January 2019 Order declared HHIC Phil under rehabilitation and appointed Atty. Stefani C. Saňo (**Atty. Saño**) as rehabilitation receiver of HHIC Phil, respectively. In its Order dated 11 February 2019, the Rehabilitation Court appointed Atty. Rosario S. Bernaldo (**Atty. Bernaldo**) as the new rehabilitation receiver of HHIC Phil. On 19 February 2019, (a) Atty. Bernaldo took her oath of office as such and posted the required bond; and (b) the Rehabilitation Court discharged/relieved Atty. Saňo of his post and ordered Atty. Bernaldo to immediately discharge and perform her powers, duties and responsibilities as the new rehabilitation receiver of HHIC Phil.

To the extent allowable under the FRIA, the Bank, together with the four other creditor banks of HHIC Phil namely, BDO Unibank, Inc., Bank of the Philippine Islands, Metropolitan Bank & Trust Company and Land Bank of the Philippines (collectively, the **Creditor-Banks**), negotiated a modified rehabilitation plan (**MRP**) with HHIC Phil and HHIC Korea. The MRP is envisioned to ensure (a) the immediate payment to the supplier-creditors and other creditors from readily available funds; (b) the continued operation of HHIC Phil as a shipping consultant, ship maintenance provider and/or shipping subcontracting service provider; (c) the assumption by the Creditor Banks of all costs of maintenance and operations of the shipyard in order to prevent the rapid deterioration of the assets; and (d) the continued employment of the remaining employees of HHIC Phil.

As an essential component of the MRP, and to allow the Creditor-Banks to be in a position to assume the costs of maintenance and operation of the Subic shipyard, the Creditor-Banks, HHIC Phil and HHIC Korea agreed to settle the claims of the Creditor-Banks by way of a *dacion en pago*. Under the *dacion en pago*, the assets of HHIC-Phil (except for an identified few) will be transferred to the Creditor-Banks through a trustee, which shall be RCBC Trust and Investment Group (the **HHI Trustee**). The amount of assets which will be transferred to each Creditor-Bank shall be in proportion of their respective loans to the total amount of outstanding loans. The aggregate value of the transferred assets of HHIC-Phil shall be applied to a portion of the loans of HHIC-Phil to the Creditor-Banks while the remaining balance of the loan is deemed as paid and settled. Likewise, under the MRP, the HHI Trustee shall hold the transferred assets in trust for the Creditor-Banks. Subject to the Creditor-Banks' instructions, the HHI Trustee shall thereafter: (a) assign the legal title to the transferred assets or specific assets to the Creditor-Banks; (b) assign the transferred assets to a new company organised for the purpose of complying with the MRP (**NewCo**); and (c) assign the transferred assets to any third party buyer/designee or nominee of the Creditor-Banks. The HHI Trustee/Creditor-Banks/NewCo shall assume all costs necessary to maintain or operate the transferred assets, including employee costs necessary for the transferred assets to remain maintained and operational.

On 8 March 2019, the Creditor-Banks, HHIC-Phil and HHIC-Korea filed a Verified Joint Motion for Approval of Modified Rehabilitation Plan as a Pre-Negotiated Rehabilitation Plan Under Chapter III of the Financial Rehabilitation and Insolvency Act dated 3 March 2019. As of the date of this Offering Memorandum, the Bank has received 7,100,129 shares in HHIC-Korea as partial recovery for U.S.$63.5 million, which are subject to a lock-up period until December 2019. The Creditor Banks have also received custody over the Subic shipyard assets with the intention to complete a sale of these assets during the first quarter of 2020.

As of 28 August 2019, the outstanding loan obligation of HHIC Phil to the Bank is U.S.$149,441,585.67, inclusive of accrued and compounded interest as well as penalty on interest and principal.

U.S. Litigation relating to the BOB Incident

On 31 January 2019, the Bank of Bangladesh filed a complaint with the United States District Court Southern District of New York principally against the Bank, its current and former officers who had significant involvement in the BOB Incident, a money service business and its principals, junket operators and the casinos where the funds were eventually remitted, claiming that they allegedly conspired with North Korean hackers to steal funds from its FRBNY bank account and launder the same. In particular, Bank of Bangladesh asserted nine causes of action, including conversion, fraud and conspiracy, and is seeking to recover the full amount of the allegedly stolen funds, plus interest, attorney's fees, and other damages, including treble damages under the Federal Racketeer Influence and Corrupt Organizations (**RICO**) Act.

The Bank had not been properly served with summons in connection with the lawsuit brought by the Bank of Bangladesh, and sought the dismissal of the case on both procedural and substantive grounds, including but not limited to (a) the ineffectual service of summons upon it; (b) the Bank's contact with New York are not sufficient to confer personal jurisdiction over the Bank in New York; and (c) failure of the complaint to plead a legitimate basis for federal court jurisdiction, as its Federal RICO claim fails as a matter of law. An initial pre-trial conference was held by the U.S. District Court on 21 May 2019 in which discovery proceedings were stayed until jurisdiction has been determined.

Philippine Litigation relating to the BOB Incident

On 6 March 2019, the Bank and Ismael R. Reyes filed a complaint for Injunction and Damages against the Bank of Bangladesh with the Makati City Regional Trial Court (**Makati Trial Court**) for (a) the latter's repeated acts of defaming, harassing and threatening the Bank and Mr. Reyes, which is geared to damage their good name, reputation and image, and (b) making it appear that the Bank and Mr. Reyes were involved in the theft of the U.S.$81 million from its FRBNY bank account, and thus, had the legal obligation to pay/return the same. The main thrust of the complaint is that (a) Bank of Bangladesh lost the U.S.$81 million once the funds were transferred out of its FRBNY's bank account, and neither the Bank nor Mr. Reyes participated therein; and (b) despite this fact, the Bank of Bangladesh has been making public claims that the Bank (and its officers, including Mr. Reyes) may have conspired with North Korean hackers to steal and launder the concerned funds to create negative publicity for the Bank.

In his Officer's Return dated 14 March 2019, the Court Sheriff of the Makati Trial Court reported that, on 12 March 2019, he personally served the summons and a copy of the complaint upon Mr. Abu Hena Mohammad Razeen Hasan, Deputy Governor of the Bank of Bangladesh and Head of its Financial Intelligence Unit, who refused the same. The Court Sheriff thus left the summons and complaint in Mr. Hasan's presence on top of the table. The Bank of Bangladesh filed a Return of

Summons and Manifestation by Special Appearance contesting the propriety of the service of Summons, among others. Mediation conferences took place on 26 April, 15 May and 19 July 2019 after which the parties were referred back to the Trial Court. A status hearing has been set for 26 September 2019.

Regulatory Actions Involving the Bank

In August 2016, a special examination by the BSP, as a result of the BOB Incident concluded that the Bank had conducted business in an unsafe or unsound manner by operating with a grossly inadequate money laundering and terrorist financing prevention risk management and control framework. The Monetary Board of the BSP approved the imposition of supervisory action on the Bank to pay a monetary penalty in the amount of ₱ 1.00 billion in relation to the completed special examination. Additionally, the Monetary Board of the BSP imposed a number of restrictions on the Bank's activities and permanent requirements designed to strengthen the Bank's corporate governance and improve the Bank's prompt corrective action (**PCA**) framework. Temporary restrictions imposed on the Bank by the BSP included a stay on the approval of any new branch license requests, the prohibition against expanding its Bank's money service businesses through new relationships, and a prohibition against any new wire transfer or remittance-related products and services until further notice by the BSP.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

The BSP concluded its Overseeing Examination of the Bank in May 2018. Based on this examination, the BSP removed the Bank from its PCA status and consequently, lifted a majority of the temporary restrictions that were imposed in 2016.

The Bank was directed by the Monetary Board / BSP, in its letter re: Monetary Board Resolution No. 1521 (Reference No. EDIV-201809-310_G4D11-L-RCBC) received on 17 September 2018 to execute and submit its Letter of Commitment (**LOC**) to document its action plan covering the following areas:

i) Measures to ensure compliance with restrictions on establishing new additional MSB relationships and the opening of accounts outside branch premises;

ii) Enhancement of the Bank-wide money service business risk management system;

iii) Improvements to the Online Gaming Business (**OGB**) risk management system;

iv) Effective implementation of internal control policies such as job rotation and separation of sales and service functions, and conduct of additional due diligence procedures on unusual wire transfer transactions; and

v) Strengthening of controls on transactions performed outside Bank premises which are also aimed at preventing or mitigating fraudulent schemes which heighten exposure to money laundering and terrorist financing (**ML/TF**) risk.

As a result, the Bank submitted its LOC Action plans in October 2018. The Bank believes that the specific action plans submitted will not only address the supervisory issues raised by the BSP in a satisfactory manner, but will also enhance the Bank's thrust to sustain its safe and reliable banking operations.

As of date, there is only one remaining temporary restriction, which is the restriction on establishing new money service business relationships.

RCBC Securities

In December 2011, RCBC Securities, Inc. (**RCBC Securities**) initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena (**Valbuena**), who carried out certain questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violations of Batas Pambasa Blg. 22 (**BP 22**), against the aforesaid former agent. On 17 November 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC ₱30 million, payable in five years, in settlement of all the claims against her, which RSEC refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties.

In May 2012, the Capital Markets Integrity Corporation (**CMIC**) conducted an investigation on the complaint filed by Francisco Ken Cortes against RSEC. In September 2014, Carlos S. Palanca IV (**Palanca**) and Cognatio Holdings, Inc. (**Cognatio**) likewise filed a complaint against RSEC with the CMIC, even as Cognatio's earlier complaint dated 30 December 2013 against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission (**EIPD-SEC**) (the **SEC Cognatio Case**). In its Letter-Decision dated 4 December 2014, the CMIC dismissed the complaint on the ground of prescription and *res judicata*. Consequently, Palanca/Cognatio respectively appealed the case to the SEC En Banc, which granted the appeals of Palanca/Cognatio and reversed the CMIC's decision. In turn, RSEC appealed the SEC En Banc's reversal of the CMIC decision to the Court of Appeals. The case is now submitted for resolution by the Court of Appeals. In an Order dated 3 April 2019 in the SEC Cognatio Case, the EIPD-SEC (a) imposed a ₱5 million fine against RSEC; (b) imposed a ₱50,000.00 fine against its former Vice President for Operations/CFO; (c) imposed a ₱50,000.00 fine against its former Compliance Officer; and (d) imposed a fine of ₱500,000.00 against Valbuena. The EIPD-SEC likewise revoked RSEC's former Compliance Officer's registration and disqualified her from participating in the securities industry for a period of three (3) years, whereas, in addition to revoking her registration, Valbuena was perpetually disqualified from seeking registration as a salesman or associated person. In an order dated 16 July 2019, SEC-EIPD permitted a settlement offer of RSEC in the amount of ₱250,000.00. On 5 August 2019, RSEC submitted its board-approved amended internal protocols to the Markets and Securities and Regulation Department, in compliance with the directive of the SEC-EIPD.

On 22 February 2013, Stephen Y. Ku (**Ku**) filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the **Makati Trial Court**), praying, among others, for the return of his shares of stock and cash payments which he claims to have turned over to Valbuena. On 20 May 2013, RSEC sought the dismissal of the complaint on the ground of non-payment of the correct filing fees and failure to state a case of action, which was, however, denied by the Makati Trial Court. Aggrieved, RSEC filed a Petition for Certiorari with the Court of Appeals on 22 November 2013, which was given due course. In the Decision dated 9 October 2014, the Court of Appeals sustained RSEC's position and ordered the dismissal of the complaint pending before the Makati Trial Court on the ground of lack of jurisdiction. In a Petition for Review dated 15 September 2015, Ku sought the reversal of the ruling of the Court of Appeals, and as an alternative, prayed to be allowed to re-file his Complaint sans docket fees. In a Decision dated 17 October 2018, the Philippine Supreme Court granted Ku's Petition for Review and ordered the reinstatement of his case before the Makati Trial Court. RSEC filed its Motion for Reconsideration on 28 November 2018. However, in a Resolution dated 23 January 2019, the Philippine Supreme Court denied RSEC's Motion for Reconsideration. The parties failed to amicably settle during mediation conferences on 16 July 2019 and 20 August 2019. RSEC filed its pre-trial brief on 13 August 2019 and a judicial dispute resolution conference was scheduled for 4 September 2019.

Capital Expenditure

The Bank's planned capital expenditures in 2019 are ₱1.60 billion, primarily aimed at upgrading and expanding the Bank's existing technology, software and hardware.

The Bank's capital expenditures for the years ended 2017, and 2018 were ₱1.83 billion, and ₱1.39 billion, respectively. The Bank's primary capital expenditures during 2017, and 2018 were mainly invested in furniture, fixtures, and equipment.

CAPITAL ADEQUACY RATIOS

Banks in the Philippines are required by current BSP guidelines to maintain a minimum total capital adequacy ratio of at least 10.0 per cent. To implement Basel III standards, the BSP adopted new categorisations of capital, effective 1 January 2014. Tier 1 Capital comprises CET1 Capital and Additional Going Concern Capital and the subcategories of Tier 2 Capital have been eliminated. The BSP has adopted a minimum CET1 ratio of 6.0 per cent., a minimum Tier 1 ratio of 7.5 per cent. and a capital conservation buffer of 2.5 per cent). See "*Banking Regulation and Supervision*" in the Original Offering Circular.

The following table sets forth details of capital resources and capital adequacy ratios of the Bank, as of 30 June 2019, as reported to the BSP, computed using Basel III standards:

	As of 30 June
	2019
	(₱ million)
Tier 1 Capital	
Common Equity Tier (CET 1) Capital	
Paid-up share capital	51,417
Surplus	28,250
Undivided profits	3,051
Net unrealised gains or (losses) on AFS securities	2,218
Cumulative foreign currency translation	54
Others	(1,312)
Minority interest in subsidiary banks	20
Subtotal	**83,698**
Less: Regulatory Adjustments to CET 1 Capital	
Total outstanding unsecured DOSRI	1
Deferred tax assets	2,085
Goodwill	269
Other intangible assets	1,941
Defined benefit pension fund assets	-
Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board	2,596
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	199
Other equity investments	9,851
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any	15
Total CET 1 Capital	**66,741**
Additional Tier 1 (AT1) Capital	
Paid-up share capital	3
Total Tier 1 Capital	**66,744**
Tier 2 Capital	
Subordinated Debt	9,995
General Loan Loss Provision	4,215
Total Tier 2 Capital	**14,210**
Total Qualifying Capital	**80,954**

The following table sets forth the Bank's consolidated assets according to risk weight as of 30 June 2019:

	As of 30 June
	2019
	(₱ million)
Risk-weighted on-balance sheet assets	
20 per cent.	1,797
50 per cent.	35,986
75 per cent.	7,090
100 per cent.	347,931
150 per cent.	22,516
Total risk-weighted on-balance sheet assets	**415,320**
Risk-weighted off-balance sheet exposures	16,389
Total risk-weighted interest rate and exchange rate related contingencies/Others	2,406
Market and operational risk-weighted assets	65,710
Total risk-weighted assets	**499,825**

OTHER MATTERS

The loans-to-deposits ratio of 89.1 per cent. as of 31 December 2016 on page 57 of the Original Offering Circular shall be replaced by 88.8 per cent.

The net loans-to-deposits ratio of 89.1 per cent. as of 31 December 2016 on page 146 of the Original Offering Circular shall be replaced by loans-to-total deposits ratio of 88.8 per cent.

OTHER RELATIONSHIPS

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes.

ANNEX A

Reviewed Financial Results as of and for the nine months ended 30 June 2019

P&A
Grant Thornton

An instinct for growth™

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Report on Review of Condensed Consolidated Interim Financial Statements

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation and Subsidiaries
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group), which comprise the consolidated statements of financial position as of June 30, 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended June 30, 2019 and 2018, and notes to condensed consolidated interim financial statements. Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial position of the Group as at June 30, 2019, and its condensed consolidated interim financial performance and condensed consolidated interim cash flows for the six months ended June 30, 2019 and 2018 are not prepared, in all material respects, in accordance with PAS 34.

Other Matter

We have previously audited the consolidated financial statements of the Group as of December 31, 2018, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered an unqualified opinion thereon dated February 26, 2019.

PUNONGBAYAN & ARAULLO

By: **Anthony L. Ng**
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 7333699, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1638-A (until May 29, 2020)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-38-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

August 13, 2019

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND DECEMBER 31, 2018
(Amounts in Millions of Philippine Pesos)

	Notes		June 30, 2019 (Unaudited)		December 31, 2018 (Audited)
RESOURCES					
CASH AND OTHER CASH ITEMS	8	P	13,705	P	17,392
DUE FROM BANGKO SENTRAL NG PILIPINAS	8		55,309		56,495
DUE FROM OTHER BANKS	8		20,899		20,342
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENT	8		3,856		10,032
TRADING AND INVESTMENT SECURITIES - Net	9		144,105		118,449
LOANS AND RECEIVABLES - Net	10		407,532		398,300
INVESTMENTS IN ASSOCIATES - Net	11		2,714		423
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12		10,620		8,415
INVESTMENT PROPERTIES - Net	13		3,751		3,631
DEFERRED TAX ASSETS - Net			2,085		2,094
OTHER RESOURCES - Net	14		9,261		9,022
TOTAL RESOURCES		P	673,837	P	644,595
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	P	418,638	P	423,399
BILLS PAYABLE	16		64,612		56,001
BONDS PAYABLE	17		74,762		53,090
SUBORDINATED DEBT	18		9,995		9,986
ACCRUED TAXES, INTEREST AND OTHER EXPENSES			5,493		5,277
OTHER LIABILITIES	19		16,896		15,672
Total Liabilities			590,396		563,425
EQUITY			83,441		81,170
TOTAL LIABILITIES AND EQUITY		P	673,837	P	644,595

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(Amounts in Millions of Philippine Pesos, Except Per Share Data)
(UNAUDITED)

	Notes		2019		2018
INTEREST INCOME					
Loans and receivables	10	P	15,717	P	12,775
Trading and investment securities	9		2,865		1,376
Others			154		131
			18,736		14,282
INTEREST EXPENSE					
Deposit liabilities	15		4,893		2,692
Bills payable and other borrowings	16, 17, 18, 19		3,214		1,915
			8,107		4,607
NET INTEREST INCOME			10,629		9,675
IMPAIRMENT LOSSES	10		2,684		737
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES			7,945		8,938
OTHER OPERATING INCOME					
Trading and securities gain - net			3,158		-
Service fees and commissions			1,952		1,576
Trust fees			154		138
Foreign exchange gains - net			111		522
Miscellaneous	21		749		898
			6,124		3,134
TOTAL OPERATING INCOME			14,069		12,072
OTHER OPERATING EXPENSES					
Employee benefits			3,416		3,232
Taxes and licenses			1,477		1,124
Occupancy and equipment-related			1,336		1,633
Depreciation and amortization	12, 13		1,278		912
Trading and securities loss - net			-		108
Miscellaneous	21		3,000		2,557
			10,507		9,566
PROFIT BEFORE TAX			3,562		2,506
TAX EXPENSE			900		343
NET PROFIT		P	2,662	P	2,163
ATTRIBUTABLE TO:					
Parent Company's Shareholders		P	2,661	P	2,162
Non-controlling Interests			1		1
		P	2,662	P	2,163
Earnings Per Share	24				
Basic		P	2.77	P	3.11
Diluted		P	2.77	P	3.11

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	2019	2018
NET PROFIT FOR THE PERIOD	P 2,662	P 2,163
OTHER COMPREHENSIVE INCOME (LOSSES)		
Items that will not be reclassified subsequently to profit or loss		
Fair value gains (losses) on financial assets at fair value through other comprehensive income	719	(934)
Actuarial gains on defined benefit plan	32	71
	751	(863)
Item that will be reclassified subsequently to profit or loss		
Share in other comprehensive income of the subsidiaries – Translation adjustments on foreign operations	-	1
Total Other Comprehensive Income (Loss)	751	(862)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	P 3,413	P 1,301
ATTRIBUTABLE TO:		
Parent Company's Shareholders	P 3,420	P 1,307
Non-controlling Interests	(7)	(6)
	P 3,413	P 1,301

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS										
	COMMON STOCK (Note 20)	PREFERRED STOCK (Note 20)	CAPITAL PAID IN EXCESS OF PAR	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	GENERAL LOAN LOSS RESERVES	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2019											
As previously reported	P 19,356	P 3	P 32,061	P 266	P 454	(P 97)	P 2,594	P 26,507	P 81,144	P 26	P 81,170
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 16, *Leases*, net of tax	-	-	-	-	-	-	-	(276)	(276)	-	(276)
As restated	19,356	3	32,061	266	454	(97)	2,594	26,231	80,868	26	80,894
Transaction with owners											
Cash dividends	-	-	-	-	-	-	-	(863)	(863)	-	(863)
Total transaction with owners	-	-	-	-	-	-	-	(863)	(863)	-	(863)
Total comprehensive income (loss) for the period	-	-	-	759	-	-	-	2,661	3,420	(7)	3,413
Transfer of fair value gains on financial assets at fair value through other comprehensive income (FVOCI) to surplus	-	-	-	-	-	-	-	(3)	(3)	-	(3)
Transfer of retained earnings appropriated for general provision	-	-	-	-	-	-	2	(2)	-	-	-
Transfer from surplus to reserve for trust business	-	-	-	-	7	-	-	(7)	-	-	-
	-	-	-	759	7	-	2	2,649	3,417	(7)	3,410
Balance at June 30, 2019	P 19,356	P 3	P 32,061	P 1,025	P 461	(P 97)	P 2,596	P 28,017	P 83,422	P 19	P 83,441
Balance at January 1, 2018											
As previously reported	P 13,999	P 3	P 22,635	P 1,974	P 436	(P 97)	P -	P 28,049	P 66,999	P 28	P 67,027
Effect of adoption of PFRS 9, *Financial Instruments*, net of tax	-	-	-	456	-	-	2,138	(2,352)	242	(2)	240
As restated	13,999	3	22,635	2,430	436	(97)	2,138	25,697	67,241	26	67,267
Transaction with owners											
Cash dividends	-	-	-	-	-	-	-	(862)	(862)		(862)
Total transaction with owners	-	-	-	-	-	-	-	(862)	(862)		(862)
Total comprehensive income (loss) for the period	-	-	-	(855)	-	-	-	2,162	1,307	(6)	1,301
Impact of dissolution of a foreign subsidiary	-	-	-	(32)	-	-	-	-	(32)	-	(32)
Transfer of fair value gains on financial assets at FVOCI to surplus	-	-	-	-	-	-	-	(6)	(6)	-	(6)
Transfer to retained earnings appropriated for general provision	-	-	-	-	-	-	206	(206)	-	-	-
Transfer from surplus to reserve for trust business	-	-	-	-	4	-	-	(4)	-	-	-
	-	-	-	(887)	4	-	206	1,946	1,269	(6)	1,263
Balance at June 30, 2018	P 13,999	P 3	P 22,635	P 1,543	P 440	(P 97)	P 2,344	P 26,781	P 67,648	P 20	P 67,668

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before tax		P 3,562	P 2,506
Adjustments for:			
Interest income	9, 10	(18,736)	(14,282)
Interest received		18,636	13,669
Interest expense	15, 16, 17, 18	8,107	4,607
Interest paid		(7,967)	(4,185)
Depreciation and amortization	12, 13	1,278	912
Impairment losses	10	2,684	737
Dividend income	21	(208)	(180)
Share in net loss of associates	11	11	8
Gain on disposal of furniture, fixtures and equipment		(10)	(42)
Operating income before working capital changes		7,357	3,750
Decrease (increase) in financial assets at fair value through profit and loss		(487)	2,400
Increase in loans and receivables		(5,333)	(4,612)
Increase in investment properties		(120)	(195)
Increase in other resources		(3,359)	(2,226)
Increase (decrease) in deposit liabilities		(4,762)	8,025
Increase in accrued taxes, interest and other expenses		72	256
Increase (decrease) in other liabilities		(1,873)	559
Cash generated from (used in) operations		(8,505)	7,957
Cash paid for taxes		(920)	(622)
Net Cash From (Used in) Operating Activities		(9,425)	7,335
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in financial assets at fair value through other comprehensive income		(40,807)	(3,342)
Decrease (increase) in investment securities at amortized cost		16,354	(21,645)
Acquisitions of bank premises, furniture, fixtures and equipment		(856)	(1,214)
Proceeds from disposal of furniture, fixtures and equipment		284	373
Cash dividends received		208	152
Acquisitions of intangibles		(132)	(120)
Net Cash Used in Investing Activities		(24,949)	(25,796)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of bonds	17	21,672	25,771
Net proceeds from (payments of) bills payable		8,611	(5,010)
Dividends paid		(863)	(863)
Net Cash From Financing Activities		29,420	19,898
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4,954)	1,437
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	8		
Cash and other cash items		17,392	14,693
Due from Bangko Sentral ng Pilipinas		56,495	58,801
Due from other banks		20,342	19,818
Loans arising from reverse repurchase agreement		10,032	9,831
Interbank loans receivables		9,522	38
		113,783	103,181
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	8		
Cash and other cash items		13,705	13,926
Due from Bangko Sentral ng Pilipinas		55,309	57,754
Due from other banks		20,899	11,867
Loans arising from reverse repurchase agreement		3,856	10,014
Interbank loans receivables		15,060	11,057
		P 108,829	P 104,618

Supplemental Information on Non-cash Investing Activity –

In 2019, the Group has adopted PFRS 16, *Leases*, resulting in the recognition of the right of-use assets amounting to P2,475 (see Notes 3 and 12)

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018
(UNAUDITED)

(With Comparative Audited Figures as of December 31, 2018)
(Amounts in Millions of Philippine Pesos, Except Par Value, Per Share Data and as Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivatives products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Parent Company is a 42.45% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The registered address of the Parent Company is Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. PMMIC's registered business address is 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

1.2 Merger with RCBC Savings Bank, Inc. (RSB)

RCBC and RSB, a wholly owned subsidiary of RCBC, was merged on July 22, 2019 as approved by the RCBC Board on November 26, 2018, by the RSB Board on November 27, 2018, by the stockholders on February 26, 2019, by the BSP on June 17, 2019 and the SEC on July 22, 2019.

1.3 Approval of Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements of the Group as of and for the six months ended June 30, 2019 (including the comparatives for the six months ended June 30, 2018) and the year ended December 31, 2018 were approved and authorized for issue by the Bank's Audit Committee on August 13, 2019.

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This condensed consolidated interim financial statements do not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as of and for the year ended December 31, 2018 which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

This condensed consolidated interim financial statements are presented in Philippine pesos, the Group's functional and presentation currency. All amounts are in millions, except for per share data or when otherwise indicated.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's recent annual consolidated financial statements for the year ended December 31, 2018, except for the effects of applying PFRS 16, *Leases*, as discussed below. Other pronouncements which became effective from January 1, 2019 and have therefore been adopted do not have a significant impact on the Group's condensed consolidated interim financial statements.

3.1 Impact of Adoption of PFRS 16

The Group adopted PFRS 16 effective January 1, 2019 as the date of initial application. The new standard has replaced PAS 17, *Leases*, and its related interpretation International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining Whether an Arrangement Contains a Lease*. The adoption of this new standard resulted in the Group accounting for its leases, as a lessee, "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability.

The Group has applied the new standard using the modified retrospective approach, with the cumulative effect of initial application recognized as an adjustment to the opening balance of Surplus account in the consolidated statement of changes in equity as at January 1, 2019. Accordingly, comparative information has not been restated and are still reported under PAS 17 and IFRIC 4.

For contracts in place at the date of initial application, the Group 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 lease under PAS 17 and IFRIC 4.

The Group has not elected to include initial direct costs in the measurement of the right-of-use assets for operating leases that exist at the date of initial application. At this date, the Group has recognized right-of-use assets for leases previously classified as an operating lease applying PAS 17 and has elected to measure the right-of-use assets, on a lease-by-lease basis, at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position immediately before the date of initial application. Lease liability has been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions not to recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

The Group has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The Group's new accounting policy on leases are more fully discussed in Note 3.2.

The following table shows the effects of the adoption of PFRS 16 on the carrying amounts and presentation of certain affected consolidated statement of financial position accounts as of January 1, 2019:

	As Previously Reported	Effect of Adoption of PFRS 16	As Restated
Changes in resources:			
Bank Premises, Furniture, Fixture and Equipment – Net	P 8,415	P 2,475	P 10,890
Deferred Tax Assets – Net	2,094	(38)	2,056
Other Resources – Net	9,022	(37)	8,985
Net increase in resources		P 2,400	
Changes in liabilities:			
Accrued Taxes, Interest and Other Expenses	P 5,277	(P 77)	P 5,200
Other Liabilities	15,672	2,753	18,425
Net increase in liabilities		P 2,676	
Changes in equity – Surplus	26,507	(276)	26,231
Net increase in liabilities and equity		P 2,400	

3.2 Accounting Policy Applicable from January 1, 2019

For the outstanding lease contracts as of January 1, 2019 and any new contracts entered into on or after January 1, 2019, the Group 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 Group 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 Group;

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

At lease commencement date, the Group recognizes a right-of-use asset and a lease liability on the consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the expected term of the lease, whichever is shorter. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options 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 Group has elected to account for any short-term leases (less than 12 months) and leases of low-value assets (value of assets is based on its cash price if bought) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use asset is presented as part of Bank Premises, Furniture, Fixtures and Equipment (see Note 12), while lease liabilities is presented as part of Other Liabilities account (see Note 19) in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's condensed consolidated interim financial statements in accordance with PAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements. Actual results may vary from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Group's last annual consolidated financial statements as of and for the year ended December 31, 2018, except for those relevant to the adoption of PFRS 16 involving estimation of lease term and use of discount rates as described below.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Factors considered by management include, but are not limited to:

(a) contractual terms and conditions for the optional periods compared with market rates, such as the (i) the amount of payments for the lease in any optional period; (ii) the amount of any variable payments for the lease or other contingent payments, such as payments resulting from termination penalties and residual value guarantees; and, (iii) the terms and conditions of any options that are exercisable after initial optional periods (for example, a purchase option that is exercisable at the end of an extension period at a rate that is currently below market rates).

(b) significant leasehold improvements undertaken (or expected to be undertaken) over the term of the contract that are expected to have significant economic benefit for the Group when the option to extend or terminate the lease, or to purchase the underlying asset, becomes exercisable;

(c) costs relating to the termination of the lease, such as negotiation costs, relocation costs, costs of identifying another underlying asset suitable for the Group's needs, costs of integrating a new asset into the Group's operations, or termination penalties; and,

(d) the location of the underlying asset and the availability of suitable alternatives.

The assessment is reviewed if a significant event or change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

5. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risk in relation to its operating, investing, and financial activities, and the business environment in which it operates. Generally, the Group'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. In managing financial instruments, the Group is exposed to financial risk such as market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity risk and credit risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; hence, they should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2018.

There have been no significant changes in the risk management structure of the Group or in any risk management policies since the previous annual period.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

6.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of June 30, 2019 and December 31, 2018.

	June 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL:				
Government securities	P 4,850	P -	P -	P 4,850
Corporate debt securities	1,720	-	-	1,720
Equity securities	599	-		599
Derivative assets	-	889	-	889
	7,169	889	-	8,058
Financial assets at FVOCI:				
Government securities	57,259	-	-	57,259
Other Corporate debt securities	550	-	-	550
Equity securities	1,652	216	3,831	5,699
	59,461	216	3,831	63,508
Total resources at fair value	**P 66,630**	**P 1,105**	**P 3,831**	**P 71,566**
Derivative liabilities	**P -**	**P 978**	**P -**	**P 978**

	December 31, 2018 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL:				
Government securities	P 3,511	P -	P -	P 3,511
Corporate debt securities	1,660	-	-	1,660
Equity securities	675	-	-	675
Derivative assets	-	1,724	-	1,724
	5,846	1,724	-	7,570
Financial assets at FVOCI:				
Equity securities	2,045	427	3,989	6,461
Government securities	15,138	-	-	15,138
Corporate debt securities	388	-	-	388
	17,571	427	3,989	21,987
Total resources at fair value	P 23,417	P 2,151	P 3,989	P 29,557
Derivative liabilities	P -	P 894	P -	P 894

There were no transfers between the levels of the fair value hierarchy during the six months ended June 30, 2019 and 2018.

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) Government and Corporate Debt Securities

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

(b) Equity Securities

For Level 1 category, the fair values of equity securities classified as financial assets at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) as of June 30, 2019 and December 31, 2018 were valued based on their market prices quoted in the PSE at the end of each reporting period.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as market-based approach (price-to-book value method) using current market values of comparable listed entities, discounted cash flow method, net asset value method, or dividend discounted model. The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities as of June 30, 2019 ranges from 0.746:1 to 2.797:1 for financial assets at FVOCI.

Increase (decrease) in the price-to-book ratio and net asset value would result in higher (lower) fair values, all else equal.

A reconciliation of the carrying amounts of Level 3 equity securities at the beginning and end of June 30, 2019 and December 31, 2018 is shown below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	P 3,989	P 1,710
Disposals	(158)	-
Additions	-	2,000
Reclassifications	-	543
Fair value losses – net	-	(264)
	P 3,831	P 3,989

(c) Derivative Assets and Liabilities

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available in Bloomberg for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

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

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	June 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and other cash items	P 13,705	P -	P -	P 13,705
Due from BSP	55,309	-	-	55,309
Due from other banks	20,899	-	-	20,899
Loans under reverse repurchase agreement	3,856	-	-	3,856
Investment securities at amortized cost	72,539	-	-	72,539
Loans and receivables - net	-	-	410,481	410,481
Other resources	-	-	489	489
	P 166,308	P -	P 410,970	P 577,278
Financial Liabilities:				
Deposit liabilities	P -	P -	P 411,307	P 411,307
Bills payable	-	-	64,612	64,612
Bonds payable	-	78,402	-	78,402
Subordinated debt	-	9,995	-	9,995
Accrued interest, taxes and other expenses	-	-	5,493	5,493
Other liabilities	-	-	6,575	6,575
	P -	P 88,397	P 487,987	P 576,384

	December 31, 2018 (Audited)							
	Level 1		Level 2		Level 3		Total	
Financial Assets:								
Cash and other cash items	P	17,392	P	-	P	-	P	17,392
Due from BSP		56,495		-		-		56,495
Due from other banks		20,342		-		-		20,342
Loans arising from reverse repurchase agreement		10,032		-		-		10,032
Investment securities at amortized cost		86,876		-		-		86,876
Loans and receivables - net		-		-		401,745		401,745
Other resources		-		-		985		985
	P	191,137	P	-	P	402,730	P	593,867
Financial Liabilities:								
Deposit liabilities	P	-	P	-	P	424,437	P	424,437
Bills payable		-		-		56,001		56,001
Bonds payable		-		55,281		-		55,281
Subordinated debt		-		9,955		-		9,955
Accrued interest and other expenses		-		-		4,984		4,984
Other liabilities		-		-		11,944		11,944
	P	-	P	65,236	P	497,366	P	562,602

7. SEGMENT REPORTING

7.1 Business Segments

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products.

(b) *Corporate* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of the Parent Company's various support groups and consolidated subsidiaries, except for RCBC Savings Bank and Rizal Microbank which are presented as part of Retail.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments as of June 30, 2019 and December 31, 2018.

Primary segment information (by business segment) on a consolidated basis as of and for the six months ended June 30, 2019 and December 31, 2018 is shown below:

	Retail	Corporate	Treasury	Others	Total
June 30, 2019 (Unaudited)					
Results of operations					
Net interest income	P 9,547	P 5,593	P 444	(P 4,955)	P 10,629
Non-interest income	2,800	1,334	3,215	(1,225)	6,124
Total revenues	12,347	6,927	3,659	(6,180)	16,753
Non-interest expense	(7,792)	(3,447)	(472)	(1,480)	(13,191)
Profit (loss) before tax	4,555	3,480	3,187	(7,660)	3,562
Tax expense	349	17	327	207	900
Net profit (loss)	P 4,206	P 3,463	P 2,860	(P 7,867)	P 2,662
Total resources and liabilities					
Total resources	P 206,919	P 273,698	P 139,452	P 53,768	P 673,837
Total liabilities	P 422,058	P 148,910	P 24,027	(P 4,599)	P 590,396
Other segment information					
Depreciation and amortization	P 474	P 49	P 7	P 748	P 1,278
June 30, 2018 (Unaudited)					
Results of operations					
Net interest income	P 8,101	P 4,192	P 647	(P 3,265)	P 9,675
Non-interest income	2,431	1,201	638	(1,244)	3,026
Total revenues	10,532	5,393	1,285	(4,509)	12,701
Non-interest expense	(7,475)	(1,127)	(302)	(1,291)	(10,195)
Profit (loss) before tax	3,057	4,266	983	(5,800)	2,506
Tax income (expense)	(148)	315	(27)	(483)	(343)
Net profit (loss)	P 2,909	P 4,581	P 956	(P 6,283)	P 2,163

	Retail	Corporate	Treasury	Others	Total
December 31, 2018 (Audited)					
Total resources and liabilities					
Total resources	P 149,800	P 272,160	P 109,199	P 113,436	P 644,595
Total liabilities	P 417,787	P 147,709	P 14,703	(P 16,774)	P 563,425
June 30, 2018 (Unaudited)					
Other segment information					
Depreciation and amortization	P 360	P 45	P 6	P 501	P 912

Secondary information (by geographical location) for the six months ended June 30, 2019 and year ended December 31, 2018:

	Philippines	Asia and Europe	Total
June 30, 2019 (Unaudited)			
Statement of profit or loss			
Total income	P 16,744	P 9	P 16,753
Total expenses	14,073	18	14,091
Net profit (loss)	P 2,671	(P 9)	P 2,662
Statement of financial position			
Total resources	P 673,685	P 152	P 673,837
Total liabilities	P 590,329	P 67	P 590,396
Other segment information – Depreciation and amortization	P 1,278	P -	P 1,278
June 30, 2018 (Unaudited)			
Statement of profit or loss			
Total income	P 12,699	P 2	P 12,701
Total expenses	10,520	18	10,538
Net profit (loss)	P 2,179	(P 16)	P 2,163

	Philippines		Asia and Europe		Total	
December 31, 2018 (Audited)						
Statement of financial position						
Total resources	P	644,451	P	144	P	644,595
Total liabilities	P	563,355	P	70	P	563,425
June 30, 2018 (Unaudited)						
Other segment information – Depreciation and amortization	P	912	P	-	P	912

8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Cash and other cash items	**P**	**13,705**	P	17,392
Due from BSP		**55,309**		56,495
Due from other banks		**20,899**		20,342
Loans under reverse repurchase agreement		**3,856**		10,032
Interbank loans receivables (see Note 10)		**15,060**		9,522
	P	**108,829**	P	113,783

Interest rates per annum on these deposits range from 0.00% to 2.50% in 2019 and 2018.

9. TRADING AND INVESTMENT SECURITIES

This account is composed of the following:

	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Financial assets at FVPL	**P**	**8,058**	P	7,570
Financial assets at FVOCI - net		**63,508**		21,987
Investment securities at amortized cost - net		**72,539**		88,892
	P	**144,105**	P	118,449

Interest income recognized by the Group from trading and investment securities amounts to P2,865 and P1,376 for the six months ended June 30, 2019 and 2018, respectively.

9.1 Financial Assets at Fair Value Through Profit or Loss

This account is composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Government securities	**P 4,850**	P 3,511
Corporate debt securities	**1,720**	1,660
Derivative financial assets	**889**	1,724
Equity securities	**599**	675
	P 8,058	P 7,570

9.2 Financial Assets at Fair Value Through Other Comprehensive Income

This account is composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Government debt securities	**P 57,259**	P 15,138
Unquoted equity securities	**3,831**	3,989
Quoted equity securities	**1,868**	2,472
Other debt securities	**550**	388
	P 63,508	P 21,987

9.3 Investment Securities at Amortized Cost

This account is composed of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Government securities	**P 61,638**	P 66,084
Corporate debt securities	**11,041**	22,943
	72,679	89,027
Allowance for impairment	**(140)**	(135)
	P 72,539	P 88,892

In 2019, the Parent Company disposed of certain US dollar-denominated bonds under its held-to-collect portfolio with aggregate carrying amount of P40,382, resulting in net gains amounting to P1,457 presented as part of Trading and securities gain – net in the condensed consolidated statements of income. The disposal was made in order to manage and address potential deficiency in the total minimum capital adequacy ratio after complying with the Real Estate Stress Test requirement.

10. LOANS AND RECEIVABLES

This account consists of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Receivable from customers:		
Loans and discounts	P 344,972	P 340,011
Credit card receivables	25,002	21,550
Customers' liabilities on acceptances, import bills and trust receipts	18,343	21,075
Lease contract receivable	3,445	3,403
Bills purchased	2,066	3,112
Receivables financed	386	587
	394,214	389,738
Unearned discount	(819)	(665)
	393,395	389,073
Other receivables:		
Accrued interest receivable	4,598	4,498
Accounts receivable	2,328	2,452
Unquoted debt securities classified as loans	1,964	1,963
Sales contract receivable	1,236	1,083
Interbank loans receivables (see Note 8)	15,060	9,522
	25,186	19,518
	418,581	408,591
Allowance for impairment	(11,049)	(10,291)
	P 407,532	P 398,300

10.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Real estate, renting and other related activities	P 89,042	P 85,759
Electricity, gas and water	78,085	74,686
Consumer	69,098	64,085
Wholesale and retail trade	43,464	45,153
Manufacturing (various industries)	41,816	44,600
Financial intermediaries	22,698	24,262
Transportation and communication	21,300	22,869
Other community, social and personal activities	9,482	10,545
Hotels and restaurants	4,571	3,981
Agriculture, fishing and forestry	3,965	4,559
Mining and quarrying	1,846	1,456
Others	8,028	7,118
	P 393,395	P 389,073

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Secured:		
Real estate mortgage	P 119,519	P 113,299
Chattel mortgage	47,650	44,271
Hold-out deposit	8,483	9,814
Other securities	14,937	18,733
	190,589	186,117
Unsecured	202,806	202,956
	P 393,395	P 389,073

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of June 30, 2019 and December 31, 2018 is shown below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of period	P 10,291	P 7,993
Impairment losses during the period	2,678	1,879
Accounts written off and others	(1,920)	(1,261)
Impact of adoption of PFRS 9	-	1,680
Balance at end of period	P 11,049	P 10,291

Interest income recognized by the Group from accruing loans and receivables amounts to P15,717 and P12,775 during the six months ended June 30, 2019 and 2018, respectively.

11. INVESTMENTS IN ASSOCIATES

The analysis of the carrying values of investments in associates is shown below.

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Acquisition costs of associates:		
Hanjin Heavy Industries and Construction Co., Ltd. (HHIC)	P 2,300	P -
Honda Cars Phils., Inc.	91	91
Luisita Industrial Park Co.	57	57
YGC Corporate Services, Inc.	4	4
	2,452	152
Accumulated equity in net earnings:		
Balance at beginning of period	271	265
Share in net earnings (loss) for the period	(11)	14
Share in actuarial gains on defined benefit plan	-	6
Cash dividends	-	(2)
Others	2	(12)
Balance at end of period	262	271
Carrying amount	P 2,714	P 423

In 2019, RCBC, together with other local banks, entered into a Detailed Implementing Agreement with Hanjin Heavy Industries and Construction Philippines (HHIC-PHIL), a subsidiary of HHIC, to convert a part of HHIC-PHIL's debt into a 20% equity stake in HHIC. Accordingly, in June 2019, the Bank received 7,100,129 common shares representing 8.53% ownership in HHIC in settlement of HHIC-PHIL's gross outstanding loan amounting to USD63.5 million or P3,199.

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of the Group's premises, furniture, fixtures and equipment at the beginning and end of six month period ended June 30, 2019 and the year ended December 31, 2018 are shown below.

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-Use Asset	Total
June 30, 2019						
Cost	P 1,283	P 3,470	P 9,741	P 1,083	P 2,313	P 17,890
Accumulated depreciation and amortization	-	(1,446)	(5,824)	-	-	(7,270)
Net carrying amount	**P 1,283**	**P 2,024**	**P 3,917**	**P 1,083**	**P 2,313**	**P 10,620**
December 31, 2018						
Cost	P 1,270	P 3,400	P 11,032	P 1,102	P -	P 16,804
Accumulated depreciation and amortization	-	(1,400)	(6,989)	-	-	(8,389)
Net carrying amount	P 1,270	P 2,000	P 4,043	P 1,102	P -	P 8,415

A reconciliation of the carrying amounts of the Group's bank premises, furniture, fixtures and equipment at the beginning and end of the six months period June 30, 2019 and the year ended December 31, 2018 is shown below.

	June 30, 2019 (Unaudited)					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-Use Asset	Total
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 1,270	P 2,000	P 4,043	P 1,102	P -	P 8,415
Effect of PFRS 16 adoption	-	-	-	-	2,475	2,475
Additions	13	110	572	161	291	1,147
Disposals	-	(26)	(217)	(31)	-	(274)
Depreciation and amortization charges for the period	-	(60)	(481)	(149)	(453)	(1,143)
Balance at June 30, 2019, net of accumulated depreciation and amortization	P 1,283	P 2,024	P 3,917	P 1,083	P 2,313	P 10,620

	December 31, 2018 (Audited)					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of Use Asset	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 1,283	P 2,050	P 4,446	P 1,167	P -	P 8,946
Additions	-	47	877	290	-	1,214
Disposals	(13)	(12)	(275)	(31)	-	(331)
Reclassification	-	2	(131)	129	-	-
Depreciation and amortization charges for the period	-	(87)	(874)	(453)	-	(1,414)
Balance at December 31, 2018, net of accumulated depreciation and amortization	P 1,270	P 2,000	P 4,043	P 1,102	P -	P 8,415

The Bank has no outstanding commitment to acquire any additional bank premises, furniture, fixtures and equipment as of June 30, 2019 and December 31, 2018.

13. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of the six month period ended June 30, 2019 and the year ended December 31, 2018 are shown below.

	Land	Buildings	Total
June 30, 2019 (Unaudited)			
Cost	P 2,962	P 1,628	P 4,590
Accumulated depreciation	-	(544)	(544)
Accumulated impairment	(180)	(115)	(295)
Net carrying amount	**P 2,782**	**P 969**	**P 3,751**
December 31, 2018 (Audited)			
Cost	P 1,566	P 2,659	P 4,225
Accumulated depreciation	-	(502)	(502)
Accumulated impairment	(92)	-	(92)
Net carrying amount	P 1,474	P 2,157	P 3,631

The reconciliations of the carrying amounts of investment properties at the beginning and end of the six month period ended June 30, 2019 and the year ended December 31, 2018 follow:

		June 30, 2019 (Unaudited)		December 31, 2018 (Audited)
Balance at January 1, net of accumulated depreciation and impairment	P	**3,631**	P	3,399
Additions		**414**		672
Disposals/transfers	(	**229)**	(	382)
Reclassifications		**-**		39
Depreciation charges for the period	(	**65)**	(	97)
Balance at June 30 and December 31, net of accumulated depreciation and impairment	**P**	**3,751**	P	3,631

14. OTHER RESOURCES

This account consists of the following:

		June 30, 2019 (Unaudited)		December 31, 2018 (Audited)
Creditable withholding taxes	**P**	**2,329**	P	2,362
Prepaid expenses		**1,350**		717
Asset held-for-sale and disposal group		**1,066**		931
Branch licenses		**1,000**		1,000
Software – net		**941**		945
Goodwill		**426**		426
Refundable and other deposits		**359**		736
Unused stationery and supplies		**320**		298
Deferred charges		**119**		124
Returned checks and other cash items		**110**		171
Foreign currency notes		**54**		59
Margin deposits		**20**		19
Miscellaneous		**1,300**		1,462
		9,394		9,250
Allowance for impairment	(	**133)**	(	228)
	P	**9,261**	P	9,022

15. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Demand	**P**	**60,761**	P	56,413
Savings		**172,853**		174,107
Time		**176,842**		179,724
Long-term Negotiable Certificate of Deposits (LTNCD)		**8,182**		13,155
	P	**418,638**	P	423,399

The details of the Parent Company's LTNCDs as of June 30, 2019 and December 31, 2018 are as follows:

			Outstanding Balance			
Issuance Date	Maturity Date	Coupon Interest	Jun 30, 2019 (Unaudited)		Dec 31, 2018 (Audited)	
September 28, 2018	March 28, 2024	5.50%	**P**	**3,580**	P	3,580
August 11, 2017	February 11, 2023	4.13%		**2,502**		2,502
December 19, 2014	June 19, 2020	4.13%		**2,100**		2,100
November 14, 2013	May 14, 2019	3.25%		-		2,860
November 14, 2013	May 14, 2019	0.00%		-		2,113
			P	**8,182**	P	13,155

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

Interest expense recognized by the Group on deposit liabilities amounts to P4,893 and P2,692 during the six months ended June 30, 2019 and 2018, respectively.

16. BILLS PAYABLE

This account consists of borrowings from:

	June 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
Foreign banks	**P**	**32,358**	P	40,613
Local banks		**32,252**		15,386
Others		**2**		2
	P	**64,612**	P	56,001

Interest expense recognized by the Group on bills payable amounts to P1,146 and P787 during the six months ended June 30, 2019 and 2018, respectively.

17. BONDS PAYABLE

The composition of this account follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value	Outstanding Balance Jun 30, 2019 (Unaudited)	Outstanding Balance Dec 31, 2018 (Audited)
June 4, 2019	June 4, 2021	6.15%	P 8,000	P 8,000	P -
February 1, 2019	August 1, 2020	6.73%	15,000	15,000	-
March 15, 2018	March 16, 2023	4.13%	$ 450	22,971	23,560
November 2, 2015	February 2, 2021	3.45%	320	16,397	16,826
January 21, 2015	January 22, 2020	4.25%	243	12,394	12,704
				P 74,762	P 53,090

In March 2018, the Parent Company issued unsecured US$ denominated Senior Notes bearing an interest of 4.13%, payable semi-annually in arrears every March 16 and September 16 of each year.

In February 2019, the Parent Company issued Fixed Rate ASEAN Green Bonds bearing an interest of 6.73% per annum, payable quarterly in arrears every February 1, May 1, August 1, and November 1 of each year while the Bonds are outstanding.

In June 2019, the Parent Company issued Fixed Rate ASEAN Sustainability Bonds bearing an interest of 6.15% per annum, payable quarterly in arrears every March 4, June 4, September 4, and December 1 of each year while the Bonds are outstanding.

Interest expense recognized by the Group on bonds payable amounts to P1,533 and P819 during the six months ended June 30, 2019 and 2018, respectively.

18. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7.0 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3.0 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7.0 billion Tier 2 Notes.

There were no changes in the significant terms and conditions of the Notes during the six months period ended June 30, 2019.

On May 27, 2019, the RCBC Board approved the Bank's request to exercise its call option and redeem its P10,000 5.375% Tier 2 Notes on September 26, 2019. The request was subsequently approved by the Monetary Board on July 25, 2019, subject to compliance with BSP conditions.

Interest expense recognized by the Group on subordinated debt amounts to P306 and P277 during the six months ended June 30, 2018 and 2017, respectively.

19. OTHER LIABILITIES

Other liabilities consist of the following:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Accounts payable	P 5,910	P 6,291
Lease liability	2,751	-
Post-employment defined benefit obligation	1,452	1,481
Manager's checks	1,126	1,545
Derivative financial liabilities	978	894
Deposits on lease contracts	606	471
Bills purchased – contra	586	1,847
Outstanding acceptances payable	568	880
Unearned income	509	380
Withholding taxes payable	508	304
Other credits	446	392
Payment orders payable	321	432
Sundry credits	147	125
Advance rentals	110	99
ECL provisions on loan commitments	95	94
Guaranty deposits	49	57
Due to BSP	5	29
Miscellaneous	729	351
	P 16,896	P 15,672

The Group incurred P124 interest expense on lease liability during the six months ended June 30, 2019.

20. EQUITY

The movements in the outstanding capital stock are as follows:

	Number of Shares*	
	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Preferred stock – voting, non-cumulative non-redeemable, participating convertible into common stock – P10 par value		
Authorized – 200,000,000 shares		
Balance at beginning of period	267,887	276,845
Conversion of shares during the period	(477)	(8,958)
Balance at end of period	267,410	267,887

	Number of Shares*	
	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Common stock – P10 par value		
Authorized:		
Balance at beginning of period	**2,600,000,000**	1,400,000,000
Increase during the period	**-**	1,200,000,000
Balance at end of period	**2,600,000,000**	2,600,000,000
Issued and outstanding:		
Balance at beginning of period	**1,935,628,775**	1,399,916,364
Issuance of shares during the period	**-**	535,710,378
Conversion of shares during the period	**121**	2,033
Balance at end of year	**1,935,628,896**	1,935,628,775

**Amounts in absolute number of shares*

20.1 Surplus and Dividend Declarations

As of June 30, 2019 and December 31, 2018, there are 750 and 756 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P28.10 per share and P28.50 per share as of June 30, 2019 and December 31, 2018, respectively.

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
January 29, 2018	0.0919	0.02	March 21, 2018	January 29, 2018	March 1, 2018	March 28, 2018
March 26, 2018	0.0616	862.35	April 27, 2018	March 26, 2018	April 5, 2018	May 7, 2018
March 26, 2018	0.0616	0.17	April 27, 2018	March 26, 2018	April 5, 2018	May 7, 2018
April 30, 2018	0.1080	0.03	June 21, 2018	April 30, 2018	June 14, 2018	June 25, 2018
July 30, 2018	0.1108	0.03	September 21, 2018	July 30, 2018	September 4, 2018	September 24, 2018
November 26, 2018	0.0111	0.03	December 21, 2018	November 26, 2018	*	December 28, 2018
February 26, 2019	0.1205	0.03	March 21, 2019	February 26, 2019	*	March 25, 2019
April 29, 2019	0.4460	863.29	May 15, 2019	April 29, 2019	*	May 29, 2019
April 29, 2019	0.4460	0.11	May 15, 2019	April 29, 2019	*	May 29, 2019
May 27, 2019	0.1166	0.03	June 21, 2019	May 27, 2019	*	June 26, 2019

** Not applicable, BSP approval not anymore required during these periods*

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P19,691 and P10,883 as of June 30, 2019 and December 31, 2018, respectively, is not currently available for distribution as dividends.

21. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

21.1 Miscellaneous Income

	For the Six Months Ended	
	January 1 to June 30, 2019 (Unaudited)	January 1 to June 30, 2018 (Unaudited)
Rentals	**P 379**	P 372
Dividend income	**208**	180
Recoveries from written-off assets	**97**	78
Gains on assets sold	**10**	42
Others	**55**	226
	P 749	P 898

21.2 Miscellaneous Expenses

	For the Six Months Ended	
	January 1 to June 30, 2019 (Unaudited)	January 1 to June 30, 2018 (Unaudited)
Credit card related expenses	**P 539**	P 403
Insurance	**422**	398
Communication and information	**286**	238
Management and other professional fees	**265**	188
Service processing fees	**197**	155
Employee activities	**145**	135
Advertising and publicity	**134**	149
Banking fees	**126**	110
Transportation and travel	**112**	91
Litigation/asset acquired expenses	**104**	185
Stationery and office supplies	**95**	82
Others	**575**	423
	P 3,000	P 2,557

22. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company (PMMIC), entities under common ownership and key management personnel.

22.1 Loans and Receivables

In the ordinary course of business, the Group has loan transactions with the entities under common ownership, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). As of June 30, 2019 and December 31, 2018, total loans and receivables to related parties amounted to P10,563 and P3,785, respectively. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under 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 Group and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group. However, non-risk loans are excluded in both individual and aggregate ceiling computation. The total outstanding DOSRI loans as of June 30, 2019 and December 31, 2018 amounted to P515 and P500, respectively. As of these periods, the Group is in compliance with these regulatory requirements.

As of June 30, 2019 and December 31, 2018, the Group recognized impairment loss on certain loans and receivables from DOSRI amounting to P0.2, and is recognized as part of Impairment Losses account in the condensed consolidated statements of income.

22.2 Deposits

The outstanding balances for deposit liabilities with its related parties as of and for the periods ended June 30, 2019 and December 31, 2018 amounted to P11,638 and P5,055, respectively. The Parent Company has provided government securities to RSB as collateral to secure 70% of the total deposits in compliance with the 30% unsecured ceiling.

22.3 Lease Contract with RCBC Realty Corporation

The Group occupy several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). Rental expense incurred by the Group related to this lease arrangement amounted to P397 and P357 as of June 30, 2019 and 2018, respectively, is included as part of Occupancy and Equipment-related account in the condensed consolidated statements of income. The Group's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities in the June 30, 2019 and December 31, 2018 condensed consolidated statements of financial position.

23. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

23.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of June 30, 2019 and December 31, 2018:

	June 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Derivative assets	**P 68,986**	P 57,253
Outstanding guarantees issued	**62,214**	49,553
Trust department accounts	**60,715**	87,639
Derivative liabilities	**55,928**	53,261
Unused commercial letters of credit	**20,291**	19,231
Spot exchange bought	**6,843**	6,330
Spot exchange sold	**6,842**	6,436
Inward bills for collection	**2,491**	1,009
Late deposits/payments received	**386**	607
Outward bills for collection	**70**	614
Others	**17**	17

23.2 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. and Global Ispat Holdings (SPVAMC), Inc. (collectively, "Global Steel"), which purchased the Iligan Plant assets of the National Steel Corporation ("NSC Plant Assets") from the Liquidator (as defined in the Asset Purchase Agreement ("APA") dated September 1, 2004) in 2004, initiated arbitration proceedings with the Singapore International Arbitration Center ("SIAC") seeking damages on account of the failure of the Liquidator and the Secured Creditors (as also defined in the APA), including the Bank and RCBC Capital, to deliver the NSC Plant Assets free and clear from liens and encumbrance, purportedly depriving Global Steel of the opportunity to use the NSC Plant Assets to secure additional loans to fund the operations of the NSC Steel Mill Plant and upgrade the same.

On May 9, 2012, the SIAC Arbitral Tribunal rendered a partial award in favor of Global Steel in the amounts of (a) US$80, as and by way of lost opportunity to make profits and (b) P1,403, representing the value of the undelivered billet shop land measuring 3.41 hectares (the "Lost Land Claim"). On appeal, and on July 31, 2014, the Singapore High Court set aside the partial award. On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court but held that the Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

The Bank's total exposure in connection with the obligation to transfer clean title to the NSC Plant Assets to Global Steel is approximately P217 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, as a result of the Philippine Supreme Court's affirmation of the ruling that all pre-closing taxes on the NSC Plant Assets are deemed paid. On the other hand, the Bank has a receivable from Global Steel in the amount of P485.5. The Bank has fully provisioned the receivable, which is classified in the books of the Bank as Unquoted Debt Securities Classified as Loans ("UDSCL") with zero net book value. The Bank's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries).

Notwithstanding the finality of the Philippine Supreme Court's ruling on the pre-closing taxes, on October 19, 2016, the City of Iligan foreclosed on National Steel Corporation properties after issuing a Notice of Delinquency against National Steel Corporation, seeking to collect the taxes covering the period 1999 to 2016. In an Order dated April 4, 2017, the Makati City Regional Trial Court (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the National Steel Corporation until the decision dated October 7, 2011, which held that the National Steel Corporation pre-closing taxes have been paid, is fully executed and National Steel Corporation's remaining tax liabilities are correctly computed. The Local Government Unit ("LGU") and the Iligan City Treasurer, among others, moved for reconsideration of this order. In an Omnibus Order dated May 21, 2018, the Makati City Regional Trial Court denied the aforementioned Motion for Reconsideration, as well as the Iligan City LGU and Iligan City Treasurer's Urgent Motion to recall the Orders dated October 18, 2016 and April 4, 2017, among others.

The City of Iligan, represented by its purported Acting City Mayor Jemar L. Vera Cruz, filed with the Court of Appeals a Petition for Certiorari dated July 6, 2018, contumaciously alleging that the said LGU had the right to sell at public auction the NSC Plant and other assets due to non-payment both pre-closing and post-closing taxes. The Petition likewise alleged that (a) the writ of execution issued by the Makati City Regional Trial Court was null and void, and (b) the case before the Makati City Regional Trial Court was an action to assail the tax delinquency auction sale which should not have been given due course for non-payment of docket fees and non-deposit of the contested tax amount of P4,610. In a Resolution dated December 18, 2018, the Court of Appeals dismissed the Petition filed by the City of Iligan on account of the LGU's failure to submit the documents/pleadings identified in an earlier Resolution dated July 31, 2018. The City of Iligan filed, among others, a Motion for Reconsideration dated February 1, 2019, which was opposed by the NSC Liquidator in his Opposition with Manifestation dated June 4, 2019. The case is still pending as of June 30, 2019.

23.3 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. ("VMS"), a Netherlands corporation and an Internet merchant providing on-line adult entertainment, on-line gambling, and on-line selling of pharmaceuticals, and Verotel International Industries, Inc. ("VII"), a Philippine corporation, civilly sued the Parent Company, Bankard, Inc. ("Bankard"), Grupo Mercarse Corp., CNP Worldwide, Inc. and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5, which the defendants allegedly misappropriated. VMS is an internet merchant providing online adult entertainment and online gambling, in addition to the sale of pharmaceuticals over the internet. Following an initial jury verdict in favor of VMS, and a series of subsequent motions and a reduction of monetary damages awarded to VMS, the Bank/Bankard filed their Notice of Appeal with the California Court of Appeals on July 11, 2016. On October 2, 2017, the Bank/Bankard filed their Revised Opening Brief on their appeal of the verdict with the California Court of Appeals. On March 28, 2018, the Bank/Bankard was advised of the filing of VMS's Combined Respondents' Brief and Cross-Appellants' Opening Brief. On August 14, 2018, the Bank/Bankard filed their combined Reply and Cross-Respondent's Brief. In accordance with prior stipulations, VMS timely filed its Final Reply Brief dated October 31, 2018.

In a letter dated May 30, 2019, VMS requested the California Court of Appeals to take cognizance of the ruling in Mazik vs. Geico General Insurance Company, claiming that it is relevant in resolving its punitive damages appeal. In a letter dated June 3, 2019, the Bank/Bankard objected to the letter filed by VMS as it violates Rule 8.254 of the California Rules of Court, which prohibits the inclusion of "argument or other discussion of authority" and description of issued raised by a party in its brief. The parties are still awaiting the advice of the California Court of Appeals on the schedule date of the oral arguments.

23.4 RCBC Securities Cases

In December 2011, RCBC Securities ("RSEC") initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), who carried out certain questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violations of Batas Pambansa Blg. 22 ("BP 22"), against the aforesaid former agent. On November 17, 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC P30, payable in five years, in settlement of all the claims against her, which RSEC refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties. On November 27, 2017, the Regional Trial Court of Makati, Branch 141, issued a Decision denying Valbuena's appeal. Thereafter, Valbuena filed a Motion for Reconsideration, which was likewise denied by the same court on April 19, 2018. Valbuena subsequently filed a Petition for Review with the Court of Appeals to question the said decision and order of the Regional Trial Court. RSEC has filed its Comment/Opposition to the said Petition for Review. The Office of the Solicitor General has likewise filed its Comment/Opposition. At present, we are awaiting the Court of Appeal's action on Valbuena's Petition for Review.

In May 2012, the Capital Markets Integrity Corporation ("CMIC") conducted an investigation on the complaint filed by Francisco Ken Cortes against RSEC. On July 3, 2015, the CMIC issued a Resolution of even date dismissing the complaint filed by Mr. Cortes. In October 2015, the CMIC affirmed the dismissal of Mr. Cortes' complaint with the denial of his Motion for Reconsideration dated July 21, 2015. Mr. Cortes did not file any appeal before the SEC en banc, so that the dismissal of his complaint is now final and executory.

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio Holdings, Inc. ("Cognatio") likewise filed a complaint against RSEC with the CMIC, even as Cognatio's earlier complaint dated December 30, 2013 against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission ("EIPD-SEC") ("SEC Cognatio Case"). In its decision letter dated December 4, 2014, the CMIC dismissed the complaint on the ground of prescription and res judicata. Consequently, Palanca/Cognatio respectively appealed the case to the SEC en banc, which granted the appeals of Palanca/Cognatio and reversed the CMIC's decision. In turn, RSEC appealed the SEC en banc's reversal of the CMIC decision to the Court of Appeals.

On October 27, 2017, the Court of Appeals granted RSEC's Petition for Review and reinstated the CMIC decision, ruling that Palanca/Cognatio committed willful and deliberate forum shopping. In a Motion for Reconsideration dated November 21, 2017, Palanca/Cognatio sought the reversal of the decision of the Court of Appeals dated October 27, 2017, which RSEC opposed via its Comment/Opposition dated February 22, 2018. Palanca/Cognatio then filed a Reply thereto dated March 9, 2018. In a Resolution dated September 5, 2018, the Court of Appeals denied Palanca/Cognatio's Motion for Reconsideration.

Palanca and Cognatio filed a Petition for Review dated October 8, 2018 with the Supreme Court, assailing the Decision dated October 27, 2017 and Resolution dated September 5, 2018 both issued by the Court of Appeals. RSEC filed its Comment/ Opposition dated February 11, 2019 to the Petition for Review, to which Palanca and Cognatio filed their Reply dated March 25, 2019. The case remains pending with the Supreme Court. On the other hand, in the SEC Cognatio Case, RSEC and its former Chief Financial Officer filed a manifestation with motion to dismiss in light of the above-cited decision of the Court of Appeals finding Palanca/Cognatio guilty of willful and deliberate forum-shopping, which was followed by the filing Cognatio's Rejoinder. The SEC-EIPD issued its Order dated April 3, 2019, finding RSEC liable for violation of the Securities Regulations Code, imposing upon it a total monetary fine of P5, and directing it to submit amended internal control procedures strengthening its Chinese Wall Policy and adopting counter-measures to validate transactions executed by its salesmen. On April 25, 2019, RSEC filed a Manifestation stating that it does not agree with the factual findings of the SEC-EIPD in the order, nonetheless, RSEC manifested that it is willing to comply with the SEC-EIPD's directive in the Order and proposes to pay immediately a reduced percentage of in full and complete settlement the monetary fine in full and complete settlement thereof. Cognatio filed its Comment to RSEC's Manifestation, to which the latter filed its Reply. At present, RSEC is awaiting the SEC-EIPD's decision on the matter.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the "Makati Trial Court"), praying, among others, for the return of his shares of stock and cash payments which he claims to have turned over to Valbuena in the approximate amount of at least P102.89). On May 20, 2013, RSEC sought the dismissal of the complaint on the ground of non-payment of the correct filing fees and failure to state a case of action, which was, however, denied by the Makati Trial Court. Aggrieved, RSEC filed a Petition for Certiorari with the Court of Appeals on November 22, 2013, which was given due course. In the Decision dated October 9, 2014, the Court of Appeals sustained RSEC's position and ordered the dismissal of the complaint pending before the Makati Trial Court on the ground of lack of jurisdiction. In a Petition for Review dated September 15, 2015, Ku sought the reversal of the ruling of the Court of Appeals, and as an alternative, prayed to be allowed to re-file his Complaint sans docket fees.

In a Decision dated October 17, 2018, the Supreme Court granted Ku's Petition holding that the Court of Appeals erred in dismissing the case given that (a) commercial courts retain its general jurisdiction to try ordinary civil cases such as the complaint initiated by Ku, and (b) Ku's immediate payment of the deficiency docket fees shows that he did not intentionally sought to evade the payment of the correct filing fees, so as to merit the dismissal of his complaint. On November 28, 2018, RSEC filed its Motion for Reconsideration of the same date. However, in a Resolution dated January 23, 2019, the Philippine Supreme Court denied RSEC's Motion for Reconsideration, and ordered the Makati Trial Court to proceed with the hearing of the case until its termination. In an Order dated April 5, 2019, the Makati Trial Court set the case for a status conference on June 4, 2019. During the status conference, the Makati Trial Court ordered the parties to submit their respective pre-trial briefs and judicial affidavits on or before August 13, 2019 and suspended the proceedings for thirty (30) days from the initial conference. It likewise scheduled the Court-Annexed Mediation on July 16, 2019 and the Judicial Dispute Resolution on September 4, 2019.

23.5 Poverty Eradication and Alleviation Certificates (PEACe) Bonds

In October 2011, the Bank filed a case before the Court of Tax Appeals questioning the 20% final withholding tax on PEACe Bonds by the BIR. The Bank subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury (BTr) withheld P199 in October 2011 from the Bank on the interest on its PEACe bonds holdings. The amount was originally recognized as part of Accounts receivables under Loans and Receivables account in the statements of financial position until it was settled in 2017.

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20% final withholding tax it withheld on the PEACe Bonds on October 18, 2011. On March 16, 2015, the Bank and RCAP filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification and/or the exclusion from the definition "deposit substitutes" the PEACe Bonds since there was only one lender at the primary market, and subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax. The Parent Company and RCAP also sought partial reconsideration of the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCAP/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed. The Bank and RCAP also reiterated its arguments that the tax constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the obligations by the BTr when it issued the PEACe Bonds. The Office of the Solicitor General ("OSG"), as counsel for the Republic and other public respondents, also filed a Motion for Reconsideration and Clarification, reiterating the BIR's right to withhold 20% as Final Withholding Tax and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Bank and RCAP's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the BTr should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCAP which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. On the other hand, the Supreme Court denied the Motion for Reconsideration and Clarification filed by the OSG. The Supreme Court likewise held that due to the continued refusal of the BTr to release the amount of P4,966 in favor of all the petitioning banks, which it withheld upon maturity of the PEACe Bonds, in violation of the order issued by the Supreme Court, the BTr is liable to pay legal interest of six percent (6%) per annum on the aforesaid amount of P4,966, counted from October 19, 2011 until fully paid.

On April 11, 2017, the Parent Company received a copy of the Entry of Judgment stating, among others, that the Decision dated January 13, 2015 and the Resolution dated August 16, 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company became final and executory on October 20, 2016. The BTr has so far settled P197 of the Parent Company's claim.

As approved by Philippine Deposit Insurance Corporation and BTr, the balance of P2, which is the subject of a deed of assignment in favor of the Parent Company (by a rural bank which has since been placed under liquidation) has been settled on October 18, 2018.

23.6 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR 4-2011, which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU.

On April 6, 2015, the Bank and other member-banks of the Bankers Association of the Philippines ("BAP- member Banks") ("Petitioners"), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order ("TRO") and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein the Bank and other BAP-member Banks Petitioners assailed the validity of RR 4-2011 on the ground, among others, that (a) RR 4-2011 violates their Petitioners' substantive due process rights; (b) it is not only illegal but also unfair, as it violates the equal protection clause of the Constitution; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Bank and other Bank and other BAP- member Banks, including the issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other Bank and other BAP- member Banks are concerned. The pre-trial conference of the case began on August 2, 2016, and continued to August 3, 2017. During the hearing on August 3, 2017, in lieu of trial for the resolution of the case, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017, which has been complied with. In an Order dated May 25, 2018, the Makati Trial Court granted the Petition for Declaratory Relief and declared RR 4-2011 null and void for being issued beyond the authority of the Secretary of Finance and Commissioner of Internal Revenue. The Makati Trial Court likewise made permanent the Writ of Preliminary Injunction it issued earlier.

The Department of Finance ("DOF") and the BIR elevated the matter to the Supreme Court via its Petition for Review on Certiorari dated August 1, 2018, alleging that (a) the petitions assailing the validity of RR 4-2011 should have been brought before the Court of Tax Appeal and not the Makati Trial Court, (b) upon the issuance of RR 4-2011, the Bank and other BAP-member Banks should have already adjusted their accounting and book keeping methods, (c) the declaratory relief action was no longer proper in view of the issuance of Preliminary Assessment Notices, and (d) RR 4-2011 is a valid regulatory issuance of the DOF and BIR.

In a Resolution dated March 27, 2019, the Supreme Court directed the Bank and other BAP-member Banks to file their Comment on the Petition filed by the DOF and BIR within ten (10) days from notice. As such, the Bank and other BAP-member Banks have until July 5, 2019, to file their Comment.

23.7 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, four allegedly unauthorized transfers of funds from the Bangladesh Bank's account with the Federal Reserve Bank of New York ("FRBNY") to four accounts in the Bank occurred, which were eventually transferred to various accounts outside of the Bank and into casinos. In August 2016, the Monetary Board approved the imposition of supervisory action on the Bank to pay the amount of P1,000 in relation to the completed special examination. The Bank has fully recognized the BSP's P1,000 fine as part of miscellaneous expenses in its 2016 Consolidated Statements of Profit or Loss, and it has paid this penalty in full ahead of the August 2017 deadline set by the BSP. The Bank's payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations. Nonetheless, there may still be other regulatory cases arising from these events.

(a) U.S. Litigation relating to the Bangladesh Bank Incident

On January 31, 2019, Bangladesh Bank filed a complaint with the United States District Court Southern District of New York principally against the Bank, its current and former officers who had significant involvement in the Incident, a money service business and its principals, junket operators and the casinos where the funds were eventually remitted, claiming that they allegedly conspired with North Korean hackers to steal funds from its FRBNY bank account and launder the same. In particular, Bangladesh Bank asserted nine (9) causes of action, including conversion, fraud and conspiracy, and is seeking the full amount of the allegedly stolen funds, plus interest, attorney's fees, and other damages, including treble damages under the Federal Racketeer Influence and Corrupt Organizations ("RICO") Act.

The Bank has not been properly served with summons in connection with the lawsuit brought by Bangladesh Bank, and is seeking the dismissal of the case on both procedural and substantive grounds, including but not limited to (a) the Philippines, and not New York, is the correct venue under the doctrine of forum *non conveniens*; (b) the ineffectual service of summons upon it; (c) the Bank's contact with New York are not sufficient to confer personal jurisdiction over the Bank in New York; and (d) failure of the Complaint to plead a legitimate basis for federal court jurisdiction, as its Federal RICO claim fails as a matter of law. Accordingly, the Bank filed a pre-motion to dismiss letter on April 8, 2019, and joined other defendants in the joint motion to dismiss letter filed on April 30, 2019. Bangladesh Bank filed its response to these pre-motion letters on May 10, 2019.

An initial pre-trial conference was held by the U.S. District Court on May 21, 2019 where the judge decided to stay discovery pending the resolution of the motions to dismiss so that the court may first iron out whether it has jurisdiction to continue.

On June 14, 2019, the Bank, with several of its co-defendants, filed a joint motion to dismiss for lack of subject matter jurisdiction and a joint motion to dismiss on forum *non conveniens* grounds. Bangladesh Bank is due to file its responses to these joint motions on July 18, 2019, and the reply-briefs of the defendants, including the Bank, are due to be filed on August 1, 2019.

(b) Philippine Litigation relating to the Bangladesh Bank Incident

On March 6, 2019, the Bank and Ismael R. Reyes filed a complaint for Injunction and Damages against the Bangladesh Bank with the Makati City Regional Trial Court ("Makati Trial Court") for (a) the latter's repeated acts of defaming, harassing and threatening the Bank and Mr. Reyes, which is geared to damage their good name, reputation and image, and (b) making it appear that the Bank and Mr. Reyes were involved in the theft of the US$81 from its FRBNY bank account, and thus, had the legal obligation to pay/return the same. The main thrust of the Complaint is that (a) Bangladesh Bank lost the US$81 the minute the said funds were transferred out of its FRBNY's bank account, and the Bank and Mr. Reyes had no participation therein; and (b) despite this fact, Bangladesh Bank has been making very public and outrageous claims that the Bank (and its officers, including Mr. Reyes) allegedly conspired with North Korean hackers to steal the said funds and launder the same, which repeated negative publicity is apparently intended to pressure the Bank into paying a settlement amount thereto.

In his Officer's Return dated March 14, 2019, the Court Sheriff of the Makati Trial Court reported that, on March 12, 2019, he personally served the Summons and a copy of the Complaint upon Mr. Abu Hena Mohammad Razeen Hasan, Deputy Governor of Bangladesh Bank and Head of its Financial Intelligence Unit, who refused the same. As such, he was constrained to tender the Summons and Complaint, by leaving the same on top of the table and in Mr. Hasan's presence. Bangladesh Bank filed a Return of Summons and Manifestation by Special Appearance (the "Manifestation") assailing the propriety of the service of Summons, among others. Mediation conferences were held on April 26, 2019 and May 15, 2019, but there was no appearance on the part of Bangladesh Bank.

At the status hearing conducted on May 30, 2019, the Makati Trial Court declared that it will resolve the issues raised in Bangladesh Bank's Manifestation, which the Bank refuted in its Counter-Manifestation and Supplemental Counter-Manifestation. The case is set anew for mediation on July 19, 2019. The case is still pending with Makati Trial Court as of June 30, 2019.

(c) Philippine Litigation relating to the Bangladesh Bank Incident

On November 18, 2016, the AMLC filed a criminal complaint against current and former employees of the Bank in relation to the Bangladesh Bank Incident with the Department of Justice (DOJ). The AMLC alleged that respondents Raul Victor B. Tan, Ismael S. Reyes, Brigitte R. Capiña, Nestor O. Pineda, Romualdo S. Agarrado and Angela Ruth S. Torres violated Section 4(f) of R.A. No. 9160, as amended ("AMLA"), in connection therewith. The AMLC alleged that each of the named persons performed or failed to perform an act, which facilitated the crime of money laundering, particularly the remittance and eventual withdrawal of US$81 from certain accounts maintained at the Bank.

On March 27, 2017, respondents Tan, Reyes, Capiña and Agarrado, as well as respondent Pineda filed their affidavits contesting, among other things, their culpability and the existence of several required elements to the charges alleged by the AMLC. Between May and July 2017, the AMLC and the aforementioned individuals filed various affidavits and manifestations in connection with the charges. In a Resolution dated February 5, 2018, the newly assigned DOJ investigating prosecutor found probable cause against respondents Tan, et al., and recommended the filing of the corresponding Information against them. On March 22, 2018, respondents Tan, Reyes, Capiña, and Agarrado timely filed their Motion for Reconsideration on the aforementioned Resolution, as with respondent Pineda.

In a belatedly filed Consolidated Opposition dated June 21, 2018, the AMLC insisted that the Philippine courts have adopted the US "Willful Blindness" doctrine, and that the contents of the MT103 message should have made respondents Tan, Reyes and Capiña suspicious of the remittances in issue. In their Reply dated August 7, 2018, respondents Tan, Reyes, and Capiña pointed out, among others, that (a) the AMLC's position is a departure from its earlier claim that respondents Tan, Reyes and Capiña ought to be charged for failing to read the same MT103 message, and (b) only final decisions of the Supreme Court become judicial precedents, and that the cited tax evasion decision of the Court of Tax Appeals cannot be accorded the same status. Respondent Agarrado, for his part, reiterated that it was respondent Torres and Deguito who approved the large transaction withdrawals on February 9, 2016, and not him. On December 12, 2018, respondents Tan, Reyes, Capiña and Agarrado filed an Urgent Motion for Inhibition, praying that the Philippine DOJ officials who issued the Resolution finding probable cause against them inhibit themselves from the proceedings.

In a Resolution dated May 10, 2019, the DOJ denied (a) the Motion for Reconsideration filed by respondents Tan, Reyes, Capiña and Agarrado, and (b) the Partial Motion for Reconsideration filed respondent Torres, but granted the Motion for Reconsideration filed by respondent Pineda. The corresponding Information of the same date was filed with the Regional Trial Court of Makati City on May 20, 2019, and the case was raffled to Branch 141. Respondents Tan, Reyes, Capiña and Agarrado initially sought the quashal of any warrant of arrest that may have been issued but later on withdrew the same. The DOJ, on the other hand, filed a Motion to Admit Amended Information on June 28, 2019, contending that (a) there is a need to amend the original Information filed, and (b) the proposed amendments will not prejudice the rights of any of the accused, which respondents Tan, Reyes, Capiña and Agarrado disputes and will be the subject of a Motion for Bill of Particulars.

On March 8, 2016, William S. Go, an existing client of the Bank in another Business Center, and the Bank, filed criminal charges against (a) Maia Santos-Deguito, the former Branch Manager of the Makati Jupiter Business Center ("Makati Jupiter BC"), and (b) Angela Ruth S. Torres, the former Senior Customer Service Officer of the Makati Jupiter BC, with the Office of the City Prosecutor of the Makati City ("OCP-Makati"). The criminal complaints alleged that the two former employees: (a) falsified bank documents in order to open fictitious U.S. Dollar and Peso denominated accounts in the name of William S. Go DBA Centurytex Trading, which were used in the transfer/conversion of US$81 subject of the Bangladesh Bank Incident, and (b) Angela Ruth S. Torres committed perjury when she executed the affidavit identifying William S. Go as the person who allegedly received the P20 withdrawn from his fictitious Peso account on February 5, 2016.

The OCP-Makati found probable cause to charge Maia Santos-Deguito with several counts of falsification, now docketed as Criminal Case Nos. 16-5175 CR to 16-5177 CR, "People of the Philippines vs. Maia Santos Deguito", which are currently being heard by the Metropolitan Trial Court of Makati City, Branch 63. In view of the untimely death of Mr. William Go, the Prosecution and external counsel for the Bank subpoenaed officers from the Legislative Records and Archives Section ("LRAS") of the Philippine Senate, who produced the certified true copies of the transcript of stenographic notes ("TSNs") and audio/video ("AV") recordings of Mr. William Go's testimony before the Senate Blue Ribbon Committee, wherein Mr. Go (a) denied opening any bank account at the Makati Jupiter BC and (b) denied participating in any transaction relating to the Bangladesh Bank incident. The Prosecution and external counsel for the Bank have likewise presented (a) the Head Security Guard at the Makati Jupiter BC, who testified that it was Maia Santos-Deguito who took possession of the P20 delivered to the said business unit in the afternoon of February 5, 2016, and (b) the Service Chief of the Senate LRAS, who identified and authenticated the TSNs and AV recordings of Mr. William Go's testimony. The next hearing will be in September 2019.

On the other hand, while the OCP-Makati dismissed the charges of falsification against Angela Ruth S. Torres, it found probable cause to charge her for perjury. The aforementioned case, Criminal Case No. M-MKT-16-06765-CR, "People of the Philippines v. Angela Ruth Torres", is also being heard by the Metropolitan Trial Court of Makati City, Branch 63. The Prosecution and the Bank's external counsel have already presented the testimonies of (a) the Head Security Guard at the Makati Jupiter BC, and (b) the Sun Life Grepa sales personnel assigned to the Makati Jupiter BC in February 2016. The June 27, 2019 hearing for the presentation of a Questioned Document Examiner did not push through. Likewise, accused Torres filed a Motion seeking the recall of the Sun Life Grepa Sales personnel, for cross-examination.

There are no known trends, demands, and commitments, events, or uncertainties that will have a material impact on the Bank's operational performance and ability to service obligations.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

24. EARNINGS PER SHARE

The following reflects the profit and per share data used in the basic and diluted earinngs per share (EPS) computations:

	For the Six Months Ended	
	June 30, 2019 (Unaudited)	June 30, 2018 (Unaudited)
a. Adjusted annualized net profit	**P 5,366**	P 4,360
b. Weighted average number of Outstanding common stocks	**1,936**	1,400
Basic and diluted EPS (a/b)	**P 2.77**	P 3.11

ANNEX B

Audited Financial Results as of and for the year ended 31 December 2018

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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, 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 Group and of the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 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 Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:

(a) Adoption of Expected Credit Loss Model for Loans and Receivables under PFRS 9, Financial Instruments

Description of the Matter

As described in Note 2 to the financial statements, the Group and the Parent Company have adopted on January 1, 2018, the new impairment requirements under PFRS 9, *Financial Instruments*, which fundamentally changed the Group's and the Parent Company's assessment and accounting for impairment losses of its loans and receivables portfolio from an incurred loss model to a forward-looking expected credit loss (ECL) model. As of December 31, 2018, the Group's and the Parent Company's loans and receivables comprise 62% and 58% of the total resources, respectively, while as at January 1, 2018, these comprise 64% and 60% of the Group's and the Parent Company's total resources, respectively. We have identified this area a key audit matter as PFRS 9 is a new and complex accounting standard that:

- requires significant management judgment on the interpretation and implementation of the requirements of the standard in assessing impairment losses based on an ECL model that involves defining when does default occur and what constitute a significant increase in the credit risk of different loans and receivables portfolio;

- involves high degree of estimation uncertainty related to management's use of various inputs and assumptions applied in the ECL model such as credit risk rating of the borrower, expected amount and timing of cash flows, including recovery of collaterals for defaulted accounts, and forward-looking macroeconomic information which may be affected by management estimation bias; and,

- requires complex estimation process that entails implementation of internal controls and use of information system in ensuring the completeness and accuracy of data used in the ECL calculation and in the preparation of required disclosures in the financial statements.

In addition, the application of the ECL model requires comprehensive and complex disclosures on the Group's and the Parent Company's financial statements as at January 1, 2018, and for each reporting period. The impact of the adoption of the ECL model at transition date and as at December 31, 2018 are disclosed in Notes 2 and 11, respectively, while the summary of significant accounting policies, the significant judgment, including estimation applied by management, as those relate to the credit risk assessment process of the Group and the Parent Company are disclosed in Notes 2, 3 and 4 to the financial statements, respectively.

How the Matter was Addressed in the Audit

We obtained an understanding of the Group's and the Parent Company's accounting policies and methodologies applied and we evaluated whether those: (a) are established and implemented consistent with the underlying principles of PFRS 9; (b) are appropriate in the context of the Group's lending activities and asset portfolio that takes into consideration the different segments of credit exposures and the relevant regulatory framework; and, (c) are supported by pertinent processes and controls, including documentations of the accounting policies that capture in sufficient detail the judgment, including estimation applied in the development of the ECL model.

With respect to the use of significant judgment, including those involving estimation of inputs and assumptions used in the ECL model, we performed the following:

- assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics and evaluated the appropriateness of the specific model applied for each segment of loan portfolio;
- evaluated both the quantitative and qualitative criteria applied in the definition of default against historical analysis for each segment of loan portfolio and in accordance with credit risk management practices, and tested the criteria in the determination of the significant increase in credit risk, including assignment of a loan or group of loans into different stages of impairment;
- tested the Group's and the Parent Company's application of internal credit risk rating system for selected items of loans, and verified the mapping of the ratings to the ECL calculation;
- tested loss given default information across various types of loan by inspecting records of historical recoveries, including valuation and cash flows from collateral, and write-offs;
- reconciled and tested exposure at default for all outstanding loans against the relevant loan databases, including review of the potential exposures from undrawn commitments against historical drawdown; and,
- assessed the appropriateness of the identification of forward-looking information (overlays) used in the ECL model and validated their reasonableness against publicly available information.

As part of our audit of the ECL methodology, we tested the completeness and accuracy of the data used in the ECL model through reconciliation of loan data subjected to the ECL calculations, which were prepared by management outside its general ledger system, against the relevant financial reporting applications and other accounting records. Moreover, we tested the stratification of loan data that were disaggregated into various portfolio segments for purposes of ECL calculations. Furthermore, we tested the mathematical formula and the computation logics applied in the calculation of the different inputs in the ECL model and the estimation of the credit losses for all loans and receivables subjected to impairment assessment.

We assessed the appropriateness of the transition adjustments as at January 1, 2018 and evaluated the completeness of the disclosures in the financial statements against the requirements of the relevant standards.

(b) Fair Value Measurement of Unquoted Securities Classified at Fair Value Through Other Comprehensive Income

Description of the Matter

The Group and the Parent Company have significant investments in unquoted equity securities measured at fair value through other comprehensive income amounting to P3,989 million and P1,946 million, respectively, as of December 31, 2018. These include equity securities with total fair value of P2,358 million and P339 million for the Group and Parent Company, respectively, on which net fair value loss of P185 million for the Group and fair value loss of P204 million for the Parent Company were recognized in other comprehensive income in 2018, which formed part of the Revaluation Reserves account in the statement of changes in equity. The valuation of these financial instruments involve complex valuation techniques (i.e., price-to-book value method and discounted cash flow method) and significant estimation which are highly dependent on underlying assumptions and inputs such as price-to-book ratios of selected comparable listed entities, application of a certain haircut rate, and appropriate discount rate in computing the present value of future cash flows expected from dividend or redemption payments. These inputs are considered Level 3 unobservable inputs in the fair value hierarchy under PFRS 13, *Fair Value Measurement*, as discussed in Notes 3 and 7 to the financial statements. Accordingly, we have assessed the valuation of the unquoted equity securities as a key audit matter.

How the Matter was Addressed in the Audit

We evaluated the appropriateness of management's valuation methodology in accordance with PFRS 13. For equity security valued using the price-to-book value method, we used our own internal valuation expert to assess and challenge the valuation assumptions used, including the identification and selection of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we reviewed available non-financial information relevant to the assessment of the potential marketability of the subject security, and the consistency of the application of the haircut rate used in prior period in light of the current industry and economic circumstances. With respect to the equity security measured using the discounted cash flow method, we evaluated the reasonableness of the amount of future cash flows from the dividend or redemption expected to be received from the instrument based on the contractual arrangement with the counterparty, and the appropriate discount rate used. We also tested the mathematical accuracy of the calculation for both valuation techniques used by management.

(c) Appropriateness of Disposals of Investment Securities at Amortized Cost

Description of the Matter

As of December 31, 2018, the Parent Company carries in its financial statements investment securities held under its hold-to-collect (HTC) business model, which are measured at amortized cost amounting to P78,595 million. In 2018, it disposed of a portion of its US dollar-denominated HTC securities with face value of US$57 million (P3,021 million) and carrying amount of P3,205 million. The disposal was made to maintain adequate liquidity buffer for the expected cash outflows for loan drawdowns.

Management assessed that such disposal remains to be consistent with the Parent Company's HTC business model with the objective of collecting contractual cash flows. The assessment to determine whether the disposal of the HTC securities is consistent with the Parent Company's HTC business model is considered a key audit matter because the assessment involves significant judgment such as on the evaluation of the frequency and significance of the disposal that may impact the appropriateness of the Parent Company's business model in managing financial instruments. The disclosures in relation to this matter are included in Note 10 while the disclosures regarding the Parent Company's assessment of the business model applied in managing financial instruments are presented in Note 3 to the financial statements.

How the Matter was Addressed in the Audit

We checked the appropriateness of the Parent Company's disposal of the US dollar-denominated HTC securities by reviewing the documentation of the approval of the Parent Company's Executive Committee on December 20, 2018 as required by the BSP. We assessed whether the disposal was made consistent with the permitted sale events documented in the Parent Company's business model in managing financial assets manual and with the relevant requirements of both the financial reporting standard and the BSP. We also assessed the appropriateness and reasonableness of the underlying data used and the rationale documented by the Parent Company in the determination of the amount of HTC securities disposed of relative to the current and forecasted level of liquidity and to ensure continuing compliance with the regulatory requirements of the BSP.

(d) Recoverability of Deferred Tax Assets

Description of the Matter

The Group's and the Parent Company's deferred tax assets amounted to P2,094 million and P964 million, respectively, as of December 31, 2018. The recognition of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent of the changes in probability that sufficient taxable profits will be available to allow all or part of such deferred tax assets to be utilized. Determining the probabilities of sufficiency of future taxable profits involves significant management judgment and high estimation uncertainty as it requires preparation of financial forecast and profitability projections which may result in different outcome scenarios, hence, may significantly affect the estimates and decisions made by management whether or not to recognize the deferred tax assets. Accordingly, we identified the recoverability of deferred tax assets as significant area of focus in our audit.

How the Matter was Addressed in the Audit

Our work included, among others, obtaining management's income projections based on its Internal Capital Adequacy Assessment Process document. Relative to this, we reviewed the appropriateness of management's assumptions underlying the recoverability of the deferred tax assets by comparing the forecast to our expectations developed based on historical performance and our understanding of the Group's and the Parent Company's existing growth strategy. We also considered the fact that the Group and the Parent Company have been utilizing the benefits of deferred tax assets since prior periods.

The relevant information about the accounting policies on deferred tax assets and the details of recognized and unrecognized deferred tax assets as of December 31, 2018 are disclosed in Notes 3 and 26 to the financial statements, respectively.

Key audit matter we identified in our audit of the consolidated financial statements of the Group:

Assessment of Goodwill Impairment

Description of the Matter

As of December 31, 2018, the balance of goodwill, net of allowance for impairment, amounted to P268 million, which is included as part of the Other Resources account in the Group's statement of financial position. Under PFRS, goodwill, having indefinite useful life, is not subject to amortization but is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. We identified this area as a key audit matter because the annual impairment test requires significant judgment and is based on assumptions which are internally developed or projected by management. This includes the identification of cash generating units (CGUs) where the goodwill is allocated and the future cash flows of the identified CGUs, which are affected by expected future market or economic conditions. The Group engaged a third party valuation specialist to assist in assessing any impairment on the recognized goodwill. Management's significant assumptions include:

- RCBC Savings Bank, Inc. (RSB)'s business, the identified CGU on which the goodwill is allocated, will continue as a going concern or if merged with the Parent Company under the Plan of Merger as disclosed in Note 1 to the financial statements, will continue to be a CGU for the Group;

- The CGU will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support the business needs; and,

- The CGU's performance forecasts for the next five years.

The Group's accounting policy on impairment of and disclosures about goodwill are included in Notes 2 and 15, respectively, to the financial statements.

How the Matter was Addressed in the Audit

We assessed the competence, capabilities and qualifications of the third party valuation specialist by considering their qualifications, experience and reporting responsibilities. We evaluated the methodology applied and the assumptions used by management and its valuation specialist, particularly those relating to the forecasted revenue growth and profit margins of RSB by considering its historical financial performance and its specific growth strategy. We compared the long-term growth rate against the industry and market outlook and other relevant external data. In addition, we did not identify event or conditions that may cast significant doubt on the identified CGU's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 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 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 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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. As discussed in Note 26 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Anthony L. Ng.

PUNONGBAYAN & ARAULLO

By: **Anthony L. Ng**
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 7333699, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1638-A (until May 29, 2020)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-38-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 26, 2019

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
RESOURCES					
CASH AND OTHER CASH ITEMS	9	**P 17,392**	P 14,693	**P 12,225**	P 10,415
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**56,495**	58,801	**39,847**	47,186
DUE FROM OTHER BANKS	9	**20,342**	19,818	**19,420**	18,368
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	9	**10,032**	9,831	**4,000**	7,435
TRADING AND INVESTMENT SECURITIES - Net	10	**118,449**	72,932	**100,982**	58,133
LOANS AND RECEIVABLES - Net	11	**398,300**	354,243	**298,744**	265,791
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES - Net	12	**423**	417	**19,928**	19,018
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**8,415**	8,946	**4,992**	5,197
INVESTMENT PROPERTIES - Net	14	**3,631**	3,399	**2,922**	2,785
DEFERRED TAX ASSETS	26	**2,094**	1,896	**964**	942
OTHER RESOURCES - Net	15	**9,022**	9,012	**6,899**	6,306
TOTAL RESOURCES		**P 644,595**	P 553,988	**P 510,923**	P 441,576

See Notes to Financial Statements.

	Notes	GROUP 2018	GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	**P 423,399**	P 388,412	**P 302,410**	P 288,667
BILLS PAYABLE	18	**56,001**	43,967	**48,759**	36,600
BONDS PAYABLE	19	**53,090**	28,060	**53,090**	28,060
SUBORDINATED DEBT	20	**9,986**	9,968	**9,986**	9,968
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	21	**5,277**	4,185	**3,966**	3,218
OTHER LIABILITIES	22	**15,672**	12,369	**11,637**	8,134
Total Liabilities		**563,425**	486,961	**429,848**	374,647
EQUITY	23				
Attributable to:					
Parent Company's Shareholders		**81,144**	66,999	**81,075**	66,929
Non-controlling Interests		**26**	28	**-**	-
		81,170	67,027	**81,075**	66,929
TOTAL LIABILITIES AND EQUITY		**P 644,595**	P 553,988	**P 510,923**	P 441,576

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		GROUP			PARENT COMPANY		
	Notes	**2018**	2017	2016	**2018**	2017	2016
INTEREST INCOME							
Loans and receivables	11	**P 27,037**	P 21,956	P 19,442	**P 19,394**	P 15,081	P 13,219
Trading and investment securities	10	**3,403**	2,430	3,269	**2,810**	1,955	2,927
Others	9, 24	**493**	378	426	**360**	277	383
		30,933	24,764	23,137	**22,564**	17,313	16,529
INTEREST EXPENSE							
Deposit liabilities	17	**6,295**	3,959	3,269	**3,723**	2,389	2,021
Bills payable and other borrowings	18, 19, 20, 24	**4,149**	2,784	4,161	**3,810**	2,529	3,945
		10,444	6,743	7,430	**7,533**	4,918	5,966
NET INTEREST INCOME		**20,489**	18,021	15,707	**15,031**	12,395	10,563
IMPAIRMENT LOSSES - Net	16	**1,899**	2,155	1,770	**1,306**	1,164	856
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**18,590**	15,866	13,937	**13,725**	11,231	9,707
OTHER OPERATING INCOME							
Service fees and commissions	2	**3,323**	3,138	3,196	**2,211**	1,985	1,762
Foreign exchange gains - net	2, 19	**843**	798	276	**991**	773	244
Trust fees	27	**278**	279	294	**218**	226	243
Share in net earnings of subsidiaries and associates	12	**14**	92	131	**1,299**	2,110	1,500
Trading and securities gains (losses) - net	2, 10	**-**	900	1,619	**(17)**	664	1,663
Miscellaneous - net	25	**1,548**	1,893	1,598	**955**	1,129	1,084
		6,006	7,100	7,114	**5,657**	6,887	6,496
TOTAL OPERATING INCOME *(Forward)*		**P 24,596**	P 22,966	P 21,051	**P 19,382**	P 18,118	P 16,203

See Notes to Financial Statements.

	Notes	GROUP 2018	GROUP 2017	GROUP 2016	PARENT COMPANY 2018	PARENT COMPANY 2017	PARENT COMPANY 2016
TOTAL OPERATING INCOME		**P 24,596**	P 22,966	P 21,051	**P 19,382**	P 18,118	P 16,203
OTHER OPERATING EXPENSES							
Employee benefits	24	**6,562**	5,991	5,408	**4,472**	4,164	3,666
Occupancy and equipment-related	28, 29	**3,457**	3,185	2,871	**2,669**	2,492	2,180
Taxes and licenses	14	**2,238**	1,821	1,840	**1,523**	1,289	1,287
Depreciation and amortization	13, 14, 15	**1,821**	1,914	1,766	**1,075**	1,085	985
Miscellaneous	25	**5,325**	4,904	5,470	**4,510**	4,083	4,556
		19,403	17,815	17,355	**14,249**	13,113	12,674
PROFIT BEFORE TAX		**5,193**	5,151	3,696	**5,133**	5,005	3,529
TAX EXPENSE (INCOME)	26	**872**	841	(174)	**813**	697	(339)
NET PROFIT		**P 4,321**	P 4,310	P 3,870	**P 4,320**	P 4,308	P 3,868
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 4,320**	P 4,308	P 3,868			
NON-CONTROLLING INTERESTS		**1**	2	2			
		P 4,321	P 4,310	P 3,870			
Earnings Per Share							
Basic and diluted	30	**P 2.62**	P 3.08	P 2.76			

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2018**	2017	2016	**2018**	2017	2016
NET PROFIT		**P 4,321**	P 4,310	P 3,870	**P 4,320**	P 4,308	P 3,868
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Actuarial gains (losses) on defined benefit plan	24	**(1,269)**	1,510	(325)	**(1,384)**	1,491	(349)
Fair value gains (losses) on equity securities at fair value through other comprehensive income	10, 23	**(1,018)**	(156)	1,442	**(478)**	(269)	1,395
Share in other comprehensive income (losses) of the subsidiaries and associates:							
Actuarial gains on defined benefit plan	12	**6**	4	-	**121**	23	24
Fair value gains (losses) on equity securities at fair value through other comprehensive income	12, 23	**-**	-	-	**(540)**	113	47
		(2,281)	1,358	1,117	**(2,281)**	1,358	1,117
Items that will be reclassified subsequently to profit or loss							
Fair value gains on debt securities at fair value through other comprehensive income	10, 23	**149**	-	-	**149**	-	-
Translation adjustments on foreign operations	12, 23	**-**	(1)	25	**-**	(1)	25
Reclassification of cumulative translation adjustment on dissolution of a foreign subsidiary	12, 23	**(32)**	-	-	**(32)**	-	-
		117	(1)	25	**117**	(1)	25
Total Other Comprehensive Income (Loss)	23	**(2,164)**	1,357	1,142	**(2,164)**	1,357	1,142
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 2,157**	P 5,667	P 5,012	**P 2,156**	P 5,665	P 5,010
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 2,156**	P 5,665	P 5,010			
NON-CONTROLLING INTERESTS		**1**	2	2			
		P 2,157	P 5,667	P 5,012			

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		GROUP										
		ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS										
	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	GENERAL LOAN LOSS RESERVE	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2018												
As previously reported		P 13,999	P 3	P 22,635	P 1,974 0	P 436	(P 97)	P -	P 28,049	66,999	P 28	P 67,027
Effect of adoption of PFRS 9	2	-	-	-	456	-	-	2,227	(4,614)	(1,931)	(3)	(1,934)
As restated		13,999	3	22,635	2,430	436	(97)	2,227	23,435	65,068	25	65,093
Transactions with owners	23											
Issuance of common stock		5,357	-	9,426	-	-	-	-	-	14,783	-	14,783
Cash dividends		-	-	-	-	-	-	-	(863)	(863)	-	(863)
Total transactions with owners		5,357	-	9,426	-	-	-	-	(863)	13,920	-	13,920
Net profit for the year		-	-	-	-	-	-	-	4,320	4,320	1	4,321
Other comprehensive loss		-	-	-	(2,164)	-	-	-	-	(2,164)		(2,164)
General loan loss appropriation	23	-	-	-	-	-	-	367	(367)	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	18	-	-	(18)	-	-	-
		5,357	-	9,426	(2,164)	18	-	367	3,072	16,076	1	2,157
Balance at December 31, 2018		**P 19,356**	**P 3**	**P 32,061**	**P 266**	**P 454**	**(P 97)**	**P 2,594**	**P 26,507**	**P 81,144**	**P 26**	**P 81,170**
Balance at January 1, 2017		P 13,999	P 3	P 22,635	P 621	P 415	(P 97)	P -	P 24,531	P 62,107	P 26	P 62,133
Transaction with owners	23											
Cash dividends		-	-	-	-	-	-	-	(773)	(773)	-	(773)
Net profit for the year		-	-	-	-	-	-	-	4,308	4,308	2	4,310
Other comprehensive income	23	-	-	-	1,357	-	-	-	-	1,357	-	1,357
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus	10, 23	-	-	-	(4)	-	-	-	4	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	21	-	-	(21)	-	-	-
		-	-	-	1,353	21	-	-	3,518	4,892	2	4,894
Balance at December 31, 2017		P 13,999	P 3	P 22,635	P 1,974	P 436	(P 97)	P -	P 28,049	P 66,999	P 28	P 67,027
Balance at January 1, 2016		P 13,999	P 3	P 22,635	(P 518)	P 388	(P 97)	P -	P 21,695	P 58,105	P 24	P 58,129
Transaction with owners	23											
Cash dividends		-	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Net profit for the year		-	-	-	-	-	-	-	3,868	3,868	2	3,870
Other comprehensive income	23	-	-	-	1,142	-	-	-	-	1,142	-	1,142
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus	10, 23	-	-	-	(3)	-	-	-	3	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	27	-	-	(27)	-	-	-
		-	-	-	1,139	27	-	-	2,836	4,002	2	4,004
Balance at December 31, 2016		P 13,999	P 3	P 22,635	P 621	P 415	(P 97)	P -	P 24,531	P 62,107	P 26	P 62,133

See Notes to Financial Statements.

PARENT COMPANY

	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	GENERAL LOAN LOSS RESERVE	SURPLUS	TOTAL EQUITY
Balance at January 1, 2018									
As previously reported		P 13,999	P 3	P 22,635	P 1,974	P 394	P -	P 27,924	P 66,929
Effect of adoption of PFRS 9	2	-	-	-	456	-	1,793	(4,179)	(1,930)
As restated		13,999	3	22,635	2,430	394	1,793	23,745	64,999
Transactions with owners	23								
Issuance of common stock		P 5,357	-	P 9,426	-	-	-	-	14,783
Cash dividends		-	-	-	-	-	-	(863)	(863)
Total transactions with owners		5,357	-	9,426	-	-	-	(863)	13,920
Net profit for the year		-	-	-	-	-	-	4,320	4,320
Other comprehensive loss		-	-	-	(2,164)	-	-		(2,164)
General loan loss appropriation	23	-	-	-	-	-	319	(319)	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	12	-	(12)	-
		5,357	-	9,426	(2,164)	12	319	3,126	16,076
Balance at December 31, 2018		**P 19,356**	**P 3**	**P 32,061**	**P 266**	**P 406**	**P 2,112**	**P 26,871**	**P 81,075**
Balance at January 1, 2017		P 13,999	P 3	P 22,635	P 621	P 378	P -	P 24,401	P 62,037
Transaction with owners	23								
Cash dividends		-	-	-	-	-	-	(773)	(773)
Net profit for the year		-	-	-	-	-	-	4,308	4,308
Other comprehensive income	23	-	-	-	1,357	-	-	-	1,357
Transfer of fair value gains on financial assets					-	-	-	-	-
at fair value through other comprehensive income to surplus	10, 23	-	-	-	(4)	-	-	4	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	16	-	(16)	-
		-	-	-	1,353	16	-	3,523	4,892
Balance at December 31, 2017		P 13,999	P 3	P 22,635	P 1,974	P 394	P -	P 27,924	P 66,929
Balance at January 1, 2016		P 13,999	P 3	P 22,635	(P 518)	P 356	P -	P 21,560	P 58,035
Transaction with owners	23								
Cash dividends		-	-	-	-	-	-	(1,008)	(1,008)
Net profit for the year		-	-	-	-	-	-	3,868	3,868
Other comprehensive income	23	-	-	-	1,142	-	-	-	1,142
Transfer of fair value gains on financial assets							-		
at fair value through other comprehensive income to surplus	10, 23	-	-	-	(3)	-	-	3	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	22	-	(22)	-
		-	-	-	1,139	22	-	2,841	4,002
Balance at December 31, 2016		P 13,999	P 3	P 22,635	P 621	P 378	P -	P 24,401	P 62,037

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2018**	2017	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 5,193**	P 5,151	P 3,696	**P 5,133**	P 5,005	P 3,529
Adjustments for:							
Interest income		**(30,933)**	(24,764)	(23,137)	**(22,564)**	(17,313)	(16,529)
Interest received		**29,528**	24,455	23,570	**21,261**	17,182	16,962
Interest paid		**(11,392)**	(6,886)	(7,253)	**(8,131)**	(4,733)	(5,889)
Interest expense		**10,444**	6,743	7,430	**7,533**	4,918	5,966
Impairment losses - net	16	**1,899**	2,155	1,770	**1,306**	1,164	856
Depreciation and amortization	13, 14, 15	**1,821**	1,914	1,766	**1,075**	1,085	985
Dividend income	25	**(189)**	(234)	(449)	**(187)**	(196)	(307)
Share in net earnings of subsidiaries and associates	12	**(14)**	(92)	(131)	**(1,299)**	(2,110)	(1,500)
Gains on assets sold	25	**(70)**	(282)	(541)	**(28)**	(199)	(24)
Operating profit before working capital changes		**6,287**	8,160	7,142	**4,099**	4,803	4,049
Decrease (increase) in financial assets at fair value through profit and loss		**(21)**	10,488	(12,967)	**(138)**	10,522	(13,082)
Decrease (increase) in financial assets at fair value through other comprehensive income		**(16,624)**	316	(1,471)	**(13,126)**	139	48
Decrease (increase) in loans and receivables		**(34,119)**	(50,172)	(6,748)	**(22,472)**	(38,690)	4,666
Decrease (increase) in investment properties		**(329)**	(774)	209	**(118)**	(45)	27
Decrease (increase) in other resources		**1,689**	1,693	(528)	**1,036**	139	254
Increase (decrease) in deposit liabilities		**34,987**	35,335	10,715	**13,743**	28,502	(3,905)
Increase (decrease) in accrued interest, taxes and other expenses		**1,037**	(593)	338	**806**	(292)	179
Increase (decrease) in other liabilities		**74**	1,911	(256)	**274**	948	(1,385)
Cash generated from (used in) operations		**(7,019)**	6,364	(3,987)	**(15,896)**	6,026	(9,149)
Income taxes paid		**(1,015)**	(605)	(574)	**(893)**	(477)	(501)
Net Cash From (Used in) Operating Activities		**(8,034)**	5,759	(4,561)	**(16,789)**	5,549	(9,650)
CASH FLOWS FROM INVESTING ACTIVITIES							
Additional investments in securities at amortized cost		**(77,488)**	(33,570)	(11,271)	**(76,286)**	(27,549)	(10,473)
Proceeds from disposal and maturity of securities at amoritzed cost		**47,755**	25,296	61,288	**45,832**	24,251	57,087
Acquisitions of bank premises, furniture, fixtures, and equipment	13	**(1,214)**	(1,521)	(2,782)	**(836)**	(899)	(1,129)
Cash dividends received	12, 25	**189**	296	560	**291**	600	307
Acquisitions of intangible assets	15	**(179)**	(304)	(294)	**(163)**	(267)	(270)
Proceeds from disposals of bank premises, furniture, fixtures and equipment	13	**401**	203	834	**226**	102	317
Net Cash From (Used in) Investing Activities		**(30,536)**	(9,600)	48,335	**(30,936)**	(3,762)	45,839
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from availments of bills payable	18, 32	**44,522**	20,561	33,668	**42,769**	15,477	31,325
Payments of bills payable	18, 32	**(32,790)**	(14,472)	(45,429)	**(30,912)**	(10,788)	(45,429)
Issuance of bonds payable	19, 32	**23,520**	-	-	**23,520**	-	-
Issuance of common stock	23	**14,783**	-	-	**14,783**	-	-
Dividends paid	23	**(863)**	(773)	(1,008)	**(863)**	(773)	(1,008)
Redemption of bonds payable	19, 32	**-**	(13,687)	-	**-**	(13,687)	-
Net Cash From (Used in) Financing Activities		**49,172**	(8,371)	(12,769)	**49,297**	(9,771)	(15,112)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Forward)*		**P 10,602**	(P 12,212)	P 31,005	**P 1,572**	(P 7,984)	P 21,077

See Notes to Financial Statements.

	Notes	GROUP 2018	GROUP 2017	GROUP 2016	PARENT COMPANY 2018	PARENT COMPANY 2017	PARENT COMPANY 2016
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**P 10,602**	(P 12,212)	P 31,005	**P 1,572**	(P 7,984)	P 21,077
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	9	**14,693**	15,176	14,070	**10,415**	11,000	10,127
Due from Bangko Sentral ng Pilipinas	9	**58,801**	66,520	50,617	**47,186**	50,871	42,026
Due from other banks	9	**19,818**	25,293	19,701	**18,368**	24,109	18,196
Loans arising from reverse repurchase agreement	9	**9,831**	7,889	-	**7,435**	4,931	-
Interbank loans receivable	9, 11	**38**	515	-	**38**	515	-
		103,181	115,393	84,388	**83,442**	91,426	70,349
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	9	**17,392**	14,693	15,176	**12,225**	10,415	11,000
Due from Bangko Sentral ng Pilipinas	9	**56,495**	58,801	66,520	**39,847**	47,186	50,871
Due from other banks	9	**20,342**	19,818	25,293	**19,420**	18,368	24,109
Loans arising from reverse repurchase agreement	9	**10,032**	9,831	7,889	**4,000**	7,435	4,931
Interbank loans receivable	9, 11	**9,522**	38	515	**9,522**	38	515
		P 113,783	P 103,181	P 115,393	**P 85,014**	P 83,442	P 91,426

See Notes to Financial Statements.

(Amounts in Millions of Philippine Pesos, Except Share and Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivatives products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group's and the Parent Company's banking network within and outside the Philippines as of December 31 follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Automated teller machines (ATMs)	**1,593**	1,562	**1,136**	1,103
Branches	**497**	473	**330**	306
Extension offices	**12**	35	**2**	25

RCBC is a 41.56%-owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. As of December 31, 2018, Cathay Life Insurance Corporation (Cathay) also owns 23.35% interest in RCBC.

The Parent Company's registered address, which is also its principal office, is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates at the end of 2018 and 2017:

Subsidiaries/Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership 2018	2017
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Consumer and retail banking		**100.00**	100.00
RCBC Forex Brokers Corporation (RCBC Forex)	Foreign exchange dealing		**100.00**	100.00
RCBC Telemoney Europe (RCBC Telemoney)	Remittance		**100.00**	100.00
RCBC International Finance Limited (RCBC IFL)	Remittance		**100.00**	100.00
RCBC Investment Ltd.	Remittance	(a)	**100.00**	100.00
RCBC North America, Inc. (RCBC North America)	Remittance	(b)	**-**	100.00
RCBC Capital Corporation (RCBC Capital)	Investment house		**99.96**	99.96
RCBC Securities, Inc. (RSI)	Securities brokerage and dealing	(c)	**99.96**	99.96
RCBC Bankard Services Corporation (RBSC)	Credit card management	(c)	**99.96**	99.96
RCBC-JPL Holding Company, Inc. (RCBC JPL)	Property holding		**99.41**	99.41
Merchants Savings and Loan Association, Inc. (Rizal Microbank)	Thrift banking and microfinance		**98.03**	98.03
RCBC Leasing and Finance Corporation (RCBC LFC)	Financial leasing	(d)	**99.31**	97.79
RCBC Rental Corporation	Property leasing	(d),(e)	**99.31**	97.79
Special Purpose Companies (SPCs):	Real estate buying and selling	(f)		
Best Value Property and Development Corporation (Best Value)			**100.00**	100.00
Cajel Realty Corporation (Cajel)			**100.00**	100.00
Crescent Park Property and Development Corporation (Crescent Park)			**100.00**	100.00
Crestview Properties Development Corporation (Crestview)			**100.00**	100.00
Eight Hills Property and Development Corporation (Eight Hills)			**100.00**	100.00
Gold Place Properties Development Corporation (Gold Place)			**100.00**	100.00
Goldpath Properties Development Corporation (Goldpath)			**100.00**	100.00
Greatwings Properties Development Corporation(Greatwings)			**100.00**	100.00
Lifeway Property and Development Corporation (Lifeway)			**100.00**	100.00
Niceview Property and Development Corporation (Niceview)			**100.00**	100.00
Niyog Property Holdings, Inc. (NPHI)		(g)	**100.00**	100.00
Princeway Properties Development Corporation (Princeway)			**100.00**	100.00
Top Place Properties Development Corporation (Top Place)			**100.00**	100.00

Associates	Line of Business	Effective Percentage of Ownership
Associates:		
YGC Corporate Services, Inc. (YCS)	Support services for YGC	**40.00**
Luisita Industrial Park Co. (LIPC)	Real estate buying, developing, selling and rental	**35.00**
Honda Cars Phils., Inc. (HCPI)	Sale of motor vehicles	**12.88**

Except for RCBC Telemoney (Italy), RCBC North America (USA), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney was operational only until March 1, 2016.

Explanatory Notes:

(a) A wholly-owned subsidiary of RCBC IFL.
(b) RCBC North America was dissolved in May 2018 after it has ceased its operations in March 2014 (see Note 12.1).
(c) Wholly-owned subsidiaries of RCBC Capital.
(d) The increase in ownership interest in RCBC LFC resulted from the issuance of shares of stock to the Parent Company after the former has secured in 2018 the Securities and Exchange Commission (SEC) approval of its application for increase in authorized capital stock from which the subscriptions were made (see Note 12.1).
(e) A wholly-owned subsidiary of RCBC LFC.
(f) Except for NPHI, the SPCs are wholly-owned subsidiaries of RSB; the SPCs, except for NPHI and Cajel, will be liquidated in pursuant to BSP recommendation and upon receipt of necessary regulatory clearance (see Note 15.3).
(g) The Parent Company has 48.11% direct ownership interest and 51.89% indirect ownership interest through RSB.

1.3 Plan of Merger

Pursuant to the Plan of Merger dated November 27, 2018 and as approved by the Board of Directors (BOD) of the Parent Company and RSB, RSB shall merge with the Parent Company, with the latter as the surviving entity. Subject to the issuance by the SEC of a Certificate of Merger with its prior approval, and the approval of the BSP and the Philippine Deposit Insurance Corporation, the merger shall become effective on July 1, 2019. The merger will involve the Parent Company acquiring the net assets of RSB in exchange for a number of shares of common stock to be determined based on a certain share exchange ratio to be agreed by both parties. The Plan of Merger was approved by the Parent Company's stockholders in their special meeting held on February 26, 2019.

1.4 Approval of Financial Statements

The consolidated financial statements of RCBC and subsidiaries and the separate financial statements of RCBC as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were approved and authorized for issue by the BOD of the Parent Company on February 26, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The accounting policies have been consistently applied to all the years presented, except when otherwise indicated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group and the separate financial statements of the Parent Company 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 (IASB), and approved by Philippine Board of Accountancy.

These 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 Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have 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.

The Parent Company made retrospective changes in the statement of profit or loss for the year ended December 31, 2017 by presenting at net the interest income and interest expense related to the receiving and paying legs of derivative instruments resulting in P354 reclassification in the amount of Interest Income on Trading and Investment Securities account and Interest Expense on Bills Payable and Other Borrowings account, to conform with the current presentation. Other reclassifications in certain accounts under the Other Operating Expenses section were also made for comparative purposes.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.16). All amounts are in millions, except share and per share data or when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Group

Except for the versions of PFRS 9, *Financial Instruments*, issued in 2009, 2010 and 2013 with date of initial application on January 1, 2014, which were early adopted by the Group on its 2014 financial statements, the Group adopted for the first time the following new PFRS, interpretation, amendments and improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Transfers of Investment Property
PFRS 9	:	Financial Instruments*
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvements to PFRS (2014 - 2016 Cycle)		
PAS 28	:	Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value

**Adopted by the Group for the first time in 2018 with respect to fair value measurement of eligible debt securities through other comprehensive income and application of expected credit loss (ECL) model in assessing impairment of financial instruments.*

Discussed below are the relevant information about these new PFRS, interpretations, amendments and improvements.

(i) PAS 40 (Amendments), *Investment Property – Transfers of Investment Property*. The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also provided a non-exhaustive list of examples constituting change in use. The application of these amendments has no impact on the Group's financial statements as there were no reclassifications made to and from investment property during the year.

(ii) PFRS 9, *Financial Instruments*. This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. In addition to the principal classification categories for financial assets and financial liabilities and the new general hedge accounting model, which were early adopted by the Group on January 1, 2014, PFRS 9 includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement through other comprehensive income for eligible debt securities; and,

- an ECL model in determining impairment of all debt financial assets that are not measured at fair value through profit or loss (FVPL), including loan commitments and financial guarantee contracts which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

In relation to the adoption of PFRS 9, the Group adopted the financial asset at fair value through other comprehensive income (FVOCI) business model at January 1, 2018, which resulted in certain debt securities reclassified from financial assets at FVPL and at amortized cost to FVOCI category. As also allowed under PFRS 9, certain equity securities were designated at FVOCI and other reclassifications between categories of financial assets were also made by the Group.

With respect to impairment of financial assets, PFRS 9 requires an ECL model replacing the incurred credit loss model under PAS 39. It is no longer required for a credit event to have occurred before credit losses are recognized. The ECL model requires the Group to account for ECL and changes in those ECL at the end of each reporting period to reflect changes in the credit risk of the financial assets since initial recognition. These resulted in the recognition of additional allowance for ECL as at January 1, 2018 on the Group's financial assets measured at amortized cost or at FVOCI, together with loan commitments.

As allowed and in accordance with the transitional provisions of this new standard, the Group applied the modified retrospective application in adopting PFRS 9. Accordingly, comparative figures have not been restated but the Group has provided the related transition disclosure requirements under PFRS 7, *Financial Instruments: Disclosures*.

The following tables show the effects of the adoption of PFRS 9 on the carrying amounts and presentation of certain affected accounts in the statement of financial position as of January 1, 2018:

		Group					
		Investment Securities at					
		FVPL	FVOCI	Amortized Cost	Loans and Receivables	Deferred Tax Assets	Other Liabilities
Balance at December 31, 2017 under PAS 39/PFRS 9		P 7,591	P 5,363	P 59,978	P 354,243	P 1,896	P 12,369
Reclassification of financial assets to (from):							
Debt securities from FVPL to FVOCI	(a)	(105)	105	-	-	-	-
Quoted equity securities from FVPL to FVOCI	(a)	(302)	302	-	-	-	-
Unquoted equity securities from FVPL to FVOCI	(a)	(543)	543	-	-	-	-
Debt securities from FVPL to amortized cost	(b)	(51)	-	54	-	-	-
Debt securities from amortized cost to FVOCI	(c)	-	310	(315)	-	-	-
		(1,001)	1,260	(261)	-	-	-
Allowance/provisions for ECL:							
Loans and receivables	(e)	-	-	-	(1,680)	(124)	-
Investment securities at amortized cost	(d)	-	-	(21)	-	-	-
Loan commitments	(f)	-	-	-	-	-	107
		-	-	(21)	(1,680)	(124)	107
Total impact of adoption of PFRS 9		(1,001)	1,260	(282)	(1,680)	(124)	107
Balance at January 1, 2018 under PFRS 9		**P 6,590**	**P 6,623**	**P 59,696**	**P 352,563**	**P 1,772**	**P 12,476**

		Parent					
		Investment Securities at					
		FVPL	FVOCI	Amortized Cost	Loans and Receivables	Investments in Subsidiaries and Associates	Other Liabilities
Balance at December 31, 2017 under PAS 39/PFRS 9		P 6,553	P 3,439	P 48,141	P 265,791	P 19,018	P 8,134
Reclassification of financial assets to (from):							
Quoted equity securities from FVPL to FVOCI	(a)	(147)	147	-	-	-	-
Unquoted equity securities from FVPL to FVOCI	(a)	(543)	543	-	-	-	-
Debt securities from FVPL to amortized cost	(b)	(51)	-	54	-	-	-
		(741)	690	54	-	-	-
Allowance/provisions for ECL:							
Loans and receivables	(e)	-	-	-	(1,959)	143	-
Investment securities at amortized cost	(d)	-	-	(10)	-	-	-
Loan commitments	(f)	-	-	-	-	-	107
		-	-	(10)	(1,959)	143	107
Total impact of adoption of PFRS 9		(741)	690	44	(1,959)	143	107
Balance at January 1, 2018 under PFRS 9		**P 5,812**	**P 4,129**	**P 48,185**	**P 263,832**	**P 19,161**	**P 8,241**

The effects of the adoption of PFRS 9 on the equity accounts presented in the statement of changes in equity as of January 1, 2018 follow:

		Group			
		Effects on			
		Surplus	Revaluation Reserves	General Loan Loss Reserves	Non-controlling interests
Balance at December 31, 2017 under PAS 39/PFRS 9		P 28,049	P 1,974	P -	P 28
Impact of adoption of PFRS 9:					
Remeasurement of reclassified financial assets					
Unquoted equity securities from FVPL to FVOCI	(a)	(461)	461	-	-
Debt securities from FVPL to amortized cost	(b)	3	-	-	-
Debt securities from amortized cost to FVOCI	(c)	-	(5)	-	-
Increase in allowance for ECL on loans and receivables	(e)	(1,677)	-	-	(3)
Increase in allowance for ECL on debt securities at amortized cost	(d)	(21)	-	-	-
Appropriation of surplus for general loan loss reserves	(e)	(2,227)	-	2,227	-
Tax effect on loan loss reserves	(e)	(124)	-	-	-
Recognition of ECL on loan commitments	(f)	(107)	-	-	-
		(4,614)	456	2,227	(3)
Balance at January 1, 2018 under PFRS 9		**P 23,435**	**P 2,430**	**P 2,227**	**P 25**

		Parent Company		
			Effects on	
		Surplus	Revaluation Reserves	General Loan Loss Reserves
Balance at December 31, 2017 under PAS 39/ PFRS 9		P 27,924	P 1,974	P -
Impact of adoption of PFRS 9:				
Remeasurement of reclassified financial assets				
Unquoted equity securities from FVPL to FVOCI	(a)	(429)	429	-
Debt securities from FVPL to amortized cost	(b)	3	-	-
Increase in allowance for ECL on loans and receivables	(e)	(1,959)	-	-
Increase in allowance for ECL on debt securities at amortized cost	(d)	(10)	-	-
Appropriation of surplus for general loan loss reserves	(e)	(1,793)	-	1,793
Recognition of ECL on loan commitments	(f)	(107)	-	-
Net impact on subsidiaries' financial statements		116	27	-
		(4,179)	456	1,793
Balance at January 1, 2018 under PFRS 9		**P 23,745**	**P 2,430**	**P 1,793**

The nature and details of the changes in the foregoing financial statements accounts arising from the adoption of PFRS 9 are fully discussed below.

(a) Investment securities reclassified from FVPL to FVOCI

The Group elected to present in other comprehensive income changes in the fair value of certain investment securities previously classified as at FVPL because these investments are held for long-term strategic investments that are not expected to be sold in the short-to-medium term. As a result, certain debt and equity securities with total fair value of P950 and P690 for the Group and Parent Company, respectively, were reclassified from FVPL to FVOCI and the accumulated fair value gains on those assets amounting to P461 and P429 for the Group and Parent Company, respectively, were reclassified from Surplus to Revaluation Reserves account.

(b) Debt security reclassified from FVPL to amortized cost

A certain foreign corporate bond of the Parent Company with fair value of P51 at January 1, 2018, which is no longer held for trading and which is held by the Parent Company for collection of contractual cash flows representing solely payments of principal and interest was reclassified from investment securities at FVPL to investment securities at amortized cost, with the fair value loss amounting to P3, previously recognized in profit or loss, adjusted as an addition to Surplus account.

(c) *Debt securities reclassified from amortized cost to FVOCI*

Debt securities with total carrying amount of P315 were reclassified to FVOCI as the assets are now held by the Group with the objective of collecting the contractual cash flows and selling in the future for liquidity purposes. The assets have fair value of P310 upon reclassification on January 1, 2018 with fair value losses of P5 adjusted to the opening balance of Revaluation Reserve account.

(d) *Expected credit losses on investment in debt securities*

All of the Group's investment in debt securities classified at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for listed and government bonds to be an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Additional allowance for ECL recognized on these debt securities as at January 1, 2018 amounted to P21 and P10 for the Group and Parent Company, respectively, adjusted against the opening balance of Surplus account.

(e) *Expected credit losses on loans and receivables*

The Group has subjected its loans and receivables portfolio as at January 1, 2018 to ECL calculation, which resulted in the recognition of additional allowance for ECL for specific loan accounts amounting to P1,677 and P1,959 for the Group and Parent Company, respectively, with adjustment charged against the opening balance of Surplus. In addition, as required by the BSP, the Group and the Parent Company has appropriated from its Surplus an amount of P2,227 and P1,793, respectively, to General Loan Loss Reserves account reported as a separate component in the statements of changes in equity (see Note 23.5). This appropriation represents the excess of the one percent required allowance for credit losses of the BSP over the computed allowance for ECL. These adjustments also resulted in the derecognition of deferred tax asset amounting to P124 recognized by a certain subsidiary on certain loss allowance provided in prior years; hence, affected the carrying amount of the Parent Company's Investments in Subsidiaries and Associates account.

(f) *Exposures at default on loan commitments*

Based on the Parent Company's outstanding lending commitments, management determines the exposures at default related to the future amounts that may be drawn based on historical observations of actual drawdowns and forward-looking forecasts. Required provisions for ECL related to undrawn loan commitments at January 1, 2018 amounted to P107 and is recognized at transition date as part of Other Liabilities account.

(iii) PFRS 15, *Revenue from Contracts with Customers,* together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in this standard is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In applying this new standard, the Group is required to account for revenue arising from contracts with customers following the five-step model as follows:

(a) identify the contract with a customer;
(b) identify the performance obligations;
(c) determine the transaction price;
(d) allocate the transaction price to the performance obligations; and,
(e) recognize revenue when (or as) performance obligations are satisfied.

Management determined that except for gains arising from sale of non-financial assets, certain service charges, commissions and fees, substantial amount of the Group's revenues are generated from financial instruments, which are outside the scope of PFRS 15. For those revenues under the scope of PFRS 15, recognition and measurement did not vary significantly from PAS 18.

In addition, prior to January 1, 2018, the Parent Company accounted for its rewards program with cardholders related to its credit-card operations in accordance with IFRIC 13 which required the Parent Company to allocate a certain portion of the interchange fees it receives from the participating merchants to the loyalty credits awarded to the cardholders for credit card purchase transactions. The Parent Company had assessed that the award credits give rise to a separate deliverable or performance obligation. Consistent with the requirements under PFRS 15, the component of interchange fees allocated to the loyalty points is recognized as revenue upon fulfilment of the obligation (i.e., actual redemption of the award credits by the cardholders). Until the cardholders redeemed the loyalty points, the Parent Company recognizes a liability related to the estimated loyalty points earned by the cardholders but are not yet redeemed as of the end of the reporting period.

The adoption of PFRS 15 has resulted in changes in the Group's accounting policies (see Note 2.14). The Group has applied the new standard retrospectively without restatement, with the cumulative effect of initial application, if any, recognized as an adjustment to the opening balance of Surplus at January 1, 2018. The adoption of PFRS 15 did not result in material adjustments in the financial statements of the Group at the date of initial application.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The Interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The adoption of this Interpretation did not have impact on the Group's financial statements as the Group has been accounting for its foreign currency-denominated transactions involving advance consideration consistent with this Interpretation.

(v) Annual Improvements to PFRS 2014 - 2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Val*ue, is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. The Group's accounting for its investments in associates is not affected by these amendments.

(b) Effective in 2018 thar are not Relevant to Group

The following amendments to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Group's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4, *Insurance Contracts*

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, amendments and annual improvements, and interpretations to existing standards effective for annual periods subsequent to 2018, 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 Group's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability or asset.

(ii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture to which the equity method is not applied must be accounted for under PFRS 9, which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

(iii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely payment of principal and interest (SPPI) test on the principal amount outstanding. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(iv) PFRS 10 (Amendments), *Consolidated Financial Statements, and PAS 28 (Amendments), Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(v) PFRS 16, *Leases* (effective from January 1, 2019). This new standard will eventually replace PAS 17, *Leases.* For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain.

In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17, where lease payments are recognized as expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same with those applied in PAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, treatment of initial direct costs and lessor disclosures.

Management is currently in the process of determining the impact of PFRS 16 and has initially assessed that the application of this new standard would likely result in significant adjustment to the reported resources and liabilities of the Group to account for its long-term leases.

(vi) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The 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 Group to consider the probability of the tax treatment being accepted by the tax 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 Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(vii) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements effective January 1, 2019, the following are relevant to the Group:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that when a specific borrowing remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of an entity's general borrowings used in calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

(viii) Amendments to PFRS 3, *Business Combinations – Definition of Business* (effective January 1, 2020). The amendments clarify the definition of a business by providing a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments also clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs.

(ix) Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective January 1, 2020). The amendments clarify the definition of 'materiality' in PAS 1 and how it should be applied. The amendments also improve the explanations of the definition and ensure consistency across all PFRSs and other pronouncements.

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Earnings of Subsidiaries and Associates account in the statement of profit or loss.

These changes include subsequent depreciation, amortization, impairment and fair value adjustments of assets and liabilities. Dividends received are accounted for as reduction in the carrying value of the investment.

Changes resulting from items of other comprehensive income of the subsidiaries or items that have been directly recognized in the subsidiaries' equity are recognized in other comprehensive income or equity, respectively, of the Parent Company. However, when the Parent Company's share in losses of subsidiaries equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated to the extent of the Parent Company's interest in the subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Parent Company.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) *Purchase method* – involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

(ii) *Pooling of interest method* – is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in a separate reserve account under equity.

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings of Subsidiaries and Associates account in the Group's statement of profit or loss. These changes include subsequent depreciation, amortization, impairment, and fair value adjustments of assets and liabilities.

Changes resulting from items of other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity, respectively, of the Group. However, when the Group's share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of associates are changed to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

(c) Interest in Jointly Controlled Operations

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interests

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to NCI result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the NCI component is shown as part of the consolidated statement of changes in equity.

In the Parent Company's financial statements, impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered (see Note 2.17).

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

2.5 Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Group or advanced to the borrowers.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FPVL are expensed in profit or loss.

(a) Classification and Measurement of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

- the financial asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect or HTC"); and,

- the contractual terms of the financial asset 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 and are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL.

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

The Group's financial assets measured at amortized cost include those presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, Investment securities at amortized cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash equivalents comprise of accounts with original maturities of three months or less, including non-restricted balances of Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, and Interbank loans receivables (part of Loans and Receivables). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash comprises cash and other cash items and demand deposits.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2018 and 2017, the Group has not made such designation.

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

Beginning January 1, 2018, financial asset is classified and measured at FVOCI if both of the following conditions are met:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling ("hold to collect and sell"); and,

- the contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or a contingent consideration recognized arising from a business combination. Upon adoption of PFRS 9 at January 1, 2018, the Parent Company has designated equity instruments not held for trading into this category.

After initial recognition, financial assets at FVOCI are subsequently measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. Upon disposal, the cumulative fair value gains or losses on equity investments previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account, while the cumulative fair value gains or losses for debt securities are reclassified to profit or loss.

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

Prior to January 1, 2018, the Group's financial assets at FVOCI only include equity investments designated into this category with gains and losses arising from such instruments accounted for similarly with the equity instruments under PFRS 9. There is no FVOCI classification that is available for debt securities prior to January 1, 2018.

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

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVPL at initial recognition, or those that do not qualify under the FVOCI or "hold to collect and sell" business model, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVPL include government securities, corporate debt securities, equity securities, derivative instruments, which are held for trading purposes or designated as at FVPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

(b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI (beginning January 1, 2018), is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Group calculates interest income 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 or 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, the calculation of interest income reverts to 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 subsequently improves.

(c) Reclassification of Financial Assets

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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 Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(d) *Impairment of Financial Assets under PFRS 9 Beginning January 1, 2018*

The Group recognizes a loss allowance for ECL on all financial assets that are measured at amortized cost and debt instruments classified as at FVOCI, as well as financial guarantee and loan commitments. Equity securities, either measured as at FVTPL or designated as at FVOCI, are not subject to impairment.

The Group measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Group recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Group's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.4.

The Group calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties.

The Group applies a simplified ECL approach for its accounts receivables wherein the Group uses a provision matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables includes claims from various counterparties, which are not originated through the Group's lending activities. For these instruments, the Group measures the loss allowance at an amount equal to lifetime ECL.

The Group recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserve account, and does not reduce the carrying amount of the financial asset in the statement of financial position. For loan commitments, the loss allowance is recognized as provisions (presented and included as part of Other Liabilities account in the statement of financial position). Where a financial instrument includes a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Group presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as provisions.

(e) Impairment of Financial Assets under PAS 39 Prior to January 1, 2018

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or,

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) Financial Assets Carried at Amortized Cost

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

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

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

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

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

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

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

When a loan or receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are charged against the amount of impairment losses in profit or loss.

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

(ii) Financial Assets Carried at Fair Value Through Other Comprehensive Income

For securities classified as FVOCI, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves and recognized in profit or loss.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. If, in a subsequent period, the fair value of such debt instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(f) *Financial Liabilities at Amortized Cost*

Financial liabilities including deposit liabilities, bills payable, bonds payable, subordinated debt, accrued interest and other expenses, and other liabilities (except derivatives with negative fair value, tax-related payables, post-employment defined benefit obligation and deferred income) are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable, bonds payable and subordinated debt are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Group and subject to the requirements of BSP Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments.*

(g) *Derecognition of Financial Assets*

(i) *Modification of Loans*

When the Group derecognizes a financial asset through renegotiation or modification of the contractual payment terms of the loans due to significant credit distress of the borrower, the Group assesses whether or not the new terms are substantially different to the original terms of the instrument. In making such assessment, the Group 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 Group derecognizes the original 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 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 Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount between the old financial asset derecognized and the fair value of the new financial asset are recognized as gain or loss in profit or loss upon derecognition. As to the impact on ECL measurement, the expected fair value of the new financial 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 Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes the gain or loss arising from the modification 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group recognizes its retained interest in the financial asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(h) Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

(i) Financial Guarantees and Undrawn Loan Commitments

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not reflected in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the Group's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position.

2.6 Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are categorized as Financial Assets at FVPL which are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

2.7 Offsetting Financial Instruments

Financial assets and 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 offset 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 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.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, the related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, 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 method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.17).

The residual values, estimated useful lives, and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) 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, amortization and any 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.

2.9 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are neither held by the Group for sale in the next 12 months nor being used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.17). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

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 its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in Miscellaneous Income or Miscellaneous Expense, respectively, under Other Operating Income or Other Operating Expenses, respectively, in the year of retirement or disposal.

2.10 Assets Held-for-Sale and Disposal Group

Assets held-for-sale and disposal group, which are presented as part of Other Resources acount, include real and other properties acquired through repossession, foreclosure or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss.

On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous Income (Expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but are tested annually for impairment (see Note 2.17). After initial recognition, goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account, represents the right given to RSI, a subsidiary engaged in stock brokerage, to preserve its access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in value (see Note 2.17).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.11 Other Resources

Other resources (excluding items classified as intangible assets) pertain to other assets controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

2.12 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 (e.g., legal dispute or onerous contracts).

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 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 Group 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 Group 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.

2.13 Equity

Preferred and common stock represent the nominal value of shares of stock that have been issued.

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares of stock are deducted from capital paid in excess of par, net of any related income tax benefits.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

(b) Reserves on remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest);

(c) Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company; and,

(d) Share in other comprehensive income or loss of subsidiaries and associates.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company and a subsidiary to appropriate and transfer to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group and the result of the redemption of the preferred stocks of RSB's subsidiaries. This also includes the excess of cost of investment over the net identifiable assets of an acquired subsidiary under the pooling of interest method.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

General loan loss reserves pertain to the accumulated amount of appropriation from Surplus made by the Group arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and comprehensive income and within equity in the consolidated statement of financial position and changes in equity.

2.14 Other Income and Expense Recognition

Prior to January 1, 2018, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of 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 Group also earns service fees and commissions in various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Group in accordance with PFRS 15.

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

a) *Charges, Fees and Commissions*

The following charges, fees and commissions are recognized as follows:

(i) *Commissions and fees* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed.

(ii) *Annual membership fees* – pertains to annual fees charged to credit cardholders. Revenues from membership fees are recognized over time from the date of renewal of the credit card until the validity date covered by the said renewal, usually termed as the expiry date of the issued cards. The credit card's validity period is deemed to be servicing period.

(iii) *Interchange fees, net of interchange costs* – are recognized as income upon presentation by member establishments of charges arising from RCBC Bankard and non-RCBC Bankard (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RCBC Bankard's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminal.

The Parent Company has a rewards program related to its credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the cardholder.

Accordingly, the Parent Company allocates a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed. Revenue is recognized upon actual redemption by the cardholder.

(iv) Loan syndication fees - are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(v) Underwriting and arrangers fees – these fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying transaction and where there are no further obligations to perform under the agreement.

b) Trust fees

These are service fees calculated in reference to the net asset value of the funds managed and deducted from the customer's account balance on a monthly basis which are recognized over time as the asset management services are provided. These are also applicable for wealth management and asset custody services that are continuously provided over an extended period of time.

c) Trading and Securities Gains (Losses)

These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains as a result of the mark-to-market valuation of investment securities classified as FVPL.

d) Gains on Assets Sold

Gains on assets sold arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale. The Group recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Group does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured.

Gains on assets sold are included as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

Collections from accounts, which did not qualify from revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

Costs and expenses are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.19).

2.15 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. 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.

(b) *Group as Lessor*

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

(i) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(ii) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(iii) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

(iv) there is a substantial change to the asset.

2.16 Foreign Currency Transactions and Translations

The Group's transactions in foreign currencies are accounted for as follows:

(a) Transactions and Balances

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVPL, are reported as part of fair value gain or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the PDSCR prevailing at the end of each reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets (debt securities) denominated in foreign currency classified as financial assets at FVPL and financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Accordingly, translation differences related to changes in amortized cost of investment in debt securities are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a component of equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on assets sold.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

2.17 Impairment of Non-financial Assets

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment, investment properties, and other resources (including intangible assets) and other non-financial assets are subject to impairment testing. Intangible assets (including goodwill) with an indefinite useful life or those not yet available for use are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, some assets are tested for impairment either individually or at the CGU level. Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading rights) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction, while in determining value in use management estimates the expected future cash flows to be generated from the continued use of the asset or CGU, 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 Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life and goodwill, 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 CGU's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized and measured as follows:

(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 Group, 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 Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

The liability recognized in the statement of financial position for defined benefit post-employment 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 for expected benefit payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL Reference Rates in 2018 and as published by Philippine Dealing & Exchange Corp. (PDEx) in 2017. These yields 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and 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. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of 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 Other Interest Income or Expense account in the statement of profit or loss.

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

(b) Post-employment Defined Contribution Plan

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

(c) *Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Interest, Taxes and Other Expenses in the statement of financial position.

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits, and, (ii) 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.

(e) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) *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 included in the Accrued Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.19 Borrowing Costs

Borrowing costs are recognized as expense 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 the 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 completed.

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.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the 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 recognized by the entities under the Group are offset if they have 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.

2.21 Related Party Relationships and Transactions

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

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

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

2.22 Earnings and Dilutive Earning Per Share

Basic earnings per share (EPS) is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

Diluted EPS is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted EPS is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased the instruments.

2.23 Trust and Fiduciary Activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

2.24 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group'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 Group'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 Policies

In the process of applying the Group'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) Evaluation of Business Model Applied in Managing Financial Instruments

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

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

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

In connection with the Group's adoption of PFRS 9 on January 1, 2018, the Parent Company's BOD ratified the Executive Committee's approval in October 2017 of the change in the Parent Company's business model to incorporate as part of its investment policy the FVOCI model which now include eligible investments in debt securities that the Parent Company holds to collect and sell. This changes in the investment policy aims to calibrate the Parent Company's strategy and management of liquidity. The introduction of the FVOCI business model allows the Parent Company to invest in high-rated issuers and bonds that qualify as high quality liquid assets while offering yield pick-up. This resulted in reclassification of certain investments in debt securities to FVOCI category [see Note 2.2(a)].

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group 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 the HTC business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

In 2018 and 2017, the Parent Company disposed of certain debt securities from its HTC portfolio in accordance with its investment policy and has applied these evaluation process to ensure that the disposal is consistent with the Group's HTC business model (see Note 10.3).

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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 Group 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 Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(c) *Evaluation of Impairment of Equity Securities at FVOCI (Applicable Prior to January 1, 2018)*

The determination when an investment in equity securities at FVOCI is other-than-temporarily impaired requires the Group to make judgment. In making this judgment with respect to the Group's outstanding financial assets at FVOCI as of December 31, 2017, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow. For investments issued by counterparty under bankruptcy, the Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

The Group's investments in equity instruments are no longer subject to impairment assessment in 2018 under PFRS 9.

(d) *Distinction Between Investment Properties and Owner-occupied Properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. 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 Group'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 Group has certain building which comprise a portion that is held for rental and other portion is used for operations which were classified by the Group as Investment Property or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(e) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements either as a lessor or a lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities. Based on the provisions of existing relevant lease agreements, the Group has determined that all of its lease arrangements with the Group as the lessee, qualify as operating leases, while for the various lease agreements of RCBC LFC as a lessor, the arrangements are accounted for under finance lease.

In determining whether the lease arrangements of RCBC LFC qualify as a finance lease, the following factors have been considered:

(i) the lease provides the lessee an option to purchase the asset; or,

(ii) the lease transfers ownership of the property at the end of the lease and the related lease terms approximate the estimate useful life of the asset being leased.

(f) *Classification and Determination of Fair Value of Acquired Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale and Disposal Group presented under Other Resources account if the Group expects that the properties will be recovered through sale rather than use, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Group determines the fair value of acquired properties through internal and external appraisal depending on the Group's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Group's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(g) *Assessment of Significant Influence on HCPI in which the Group and Parent Company Holds Less than 20% Ownership*

The management considers that the Group and the Parent Company has significant influence on HCPI even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the Group's and the Parent Company's rights to commit and undertake to vote, and to regulate the conduct of voting and the relationship between them with respect to their exercise of their voting rights (see Note 12.2).

(h) 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 2.12 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group's and the Parent Company's legal cases and are based upon the analysis of probable results.

Although the Group does not believe that its on-going proceedings as disclosed in Note 29 will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

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 each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Estimation of Expected Credit Loss on Financial Assets

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Group would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been a significant increase in credit risk and when a financial asset will be transferred between the three stages;
- the Group's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.4.

(b) *Fair Value Measurement for Financial Assets at FVPL and at FVOCI*

The Group carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7.2).

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss or other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and the Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Computer Software, Branch Licenses and Trading Rights*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, 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 these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's branch licenses and trading rights were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill and branch licenses are analyzed in Note 15. Based on management's assessment as of December 31, 2018 and 2017, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group 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. Significant judgment is applied by management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Group's future taxable income together with its future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2018 and 2017 are disclosed in Note 26.1.

(e) Estimation of Impairment Losses of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17.

The Group assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(f) Determination of Fair Value of Investment Properties

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

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 key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) Valuation of Post-employment Defined Benefits

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

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group'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.

A committee system is a fundamental part of the Group's process of managing risk. The following five committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the Board may entrust to it for action in between BOD meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar I of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit and Compliance Committee, which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorses transactions to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) and ensures compliance thereof. This Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of officers and staff are conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads including the President of the major subsidiary, RSB, meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT within the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires BOD approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Management Committee (AMLCom) was created through an order of the Senior Management Committee on June 24, 2002, for the evaluation of the suspicious transaction reports (STR) reported by different units before submission to the Anti-Money Laundering Council (AMLC). The AMLCom assists the BOD in implementing the Group's MLPP in order to ensure compliance with BSP rules and regulations relating to the prevention of money laundering and terrorist financing.

  The AMLCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Operational Risk Management Division, Legal Affairs Division as members, and AML Division as the Rapporteur. The AML Division, through the Chief Compliance Officer, reports to the Audit and Compliance Committee and to the AML Board Committee its monthly activities including the AMLCom meetings.

The Parent Company established a Corporate Risk Management Services (CRISMS) Group, headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

It is the Group'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 and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group 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 Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Limited User Authority (Type 3). In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps, and interest rate swaps and futures.

4.2 Liquidity Risk

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

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

The Group'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 Group'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 gap analyses as of December 31, 2018 and 2017 are presented below.

	Group					
	2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 51,696	P 1,389	P 2,171	P 756	P 57,771	P 113,783
Investments - net	19,248	5,112	26,288	60,665	7,559	118,872
Loans and receivables - net	25,743	63,353	102,472	98,146	99,064	388,778
Other resources - net	13,497	206	400	57	9,002	23,162
Total resources	110,184	70,060	131,331	159,624	173,396	644,595
Liabilities:						
Deposit liabilities	51,950	10,390	9,920	6,119	345,020	423,399
Bills payable	7,476	42,245	5,095	1,185	-	56,001
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	12,454	41	-	-	8,454	20,949
Total liabilities	71,880	52,676	68,105	17,290	353,474	563,425
Equity	-	-	-	-	81,170	81,170
Total liabilities and equity	71,880	52,676	68,105,	17,290	434,644	644,595
On-book gap	38,304	17,384	63,226,	142,334	(261,248)	-
Cumulative on-book gap	38,304	55,688	118,914	261,248	-	-
Contingent resources	15,844	-	-	-	-	15,844
Contingent liabilities	15,960	-	-	-	-	15,960
Off-book gap	(116)	-	-	-	-	(116)
Cumulative off-book gap	(116)	(116)	(116)	(116)	(116)	
Periodic gap	**38,188**	**17,384**	**63,226**	**142,334**	**(261,248)**	**(116)**
Cumulative total gap	**P 38,188**	**P 55,572**	**P 118,798**	**P 261,132**	**(P 116)**	**P -**

	Group 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 40,867	P 691	P 1,676	P 581	P 59,366	P 103,181
Investments - net	17,506	1,969	14,818	32,915	6,141	73,349
Loans and receivables - net	33,508	62,507	105,486	83,195	69,509	354,205
Other resources - net	9,027	566	512	38	13,110	23,253
Total resources	100,908	65,733	122,492	116,729	148,126	553,988
Liabilities:						
Deposit liabilities	62,028	9,867	11,234	2,505	302,778	388,412
Bills payable	18,538	15,303	6,379	1,499	2,248	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	9,370	69	-	-	7,115	16,554
Total liabilities	89,936	25,239	45,673	13,972	312,141	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	89,936	25,239	45,673	13,972	379,168	553,988
On-book gap	10,972	40,494	76,819	102,757	(231,042)	-
Cumulative on-book gap	10,972	51,466	128,285	231,042	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	10,175	-	-	-	-	10,175
Off-book gap	(206)	-	-	-	-	(206)
Cumulative off-book gap	(206)	(206)	(206)	(206)	(206)	-
Periodic gap	10,766	40,494	76,819	102,757	(231,042)	(206)
Cumulative total gap	P 10,766	P 51,260	P 128,079	P 230,836	(P 206)	P -

	Parent Company 2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 39,036	P 1,230	P 1,635	P 644	P 42,469	P 85,014
Investments - net	2,095	8,739	25,680	60,792	23,604	120,910
Loans and receivables - net	28,178	47,101	46,971	81,926	85,046	289,222
Other resources - net	8,142	2	23	2	7,608	15,777
Total resources	77,451	57,072	74,309	143,364	158,727	510,923
Liabilities:						
Deposit liabilities	41,379	7,392	10,673	3,580	239,386	302,410
Bills payable	4,988	39,189	3,397	1,185	-	48,759
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	8,671	-	-	-	6,932	15,603
Total liabilities	55,038	46,581	67,160	14,751	246,318	429,848
Equity	-	-	-	-	81,075	81,075
Total liabilities and equity	55,038	46,581	67,160	14,751	327,393	510,923
On-book gap	22,413	10,491	7,149	128,613	(168,666)	-
Cumulative on-book gap	22,413	32,904	40,053	168,666	-	-
Contingent resources	15,703	-	-	-	-	15,703
Contingent liabilities	15,731	-	-	-	-	15,731
Off-book gap	(28)	-	-	-	-	(28)
Cumulative off-book gap	(28)	(28)	(28)	(28)	(28)	-
Periodic gap	**22,385**	**10,491**	**7,149**	**128,613**	**(168,666)**	**(28)**
Cumulative total gap	**P 22,385**	**P 32,876**	**P 40,025**	**P 168,638**	**(P 28)**	**P -**

	Parent Company 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 34,050	P 673	P 1,441	P 501	P 46,777	P 83,442
Investments - net	14,288	507	11,903	46,207	4,246	77,151
Loans and receivables - net	24,958	46,996	62,684	74,279	56,836	265,753
Other resources - net	5,340	346	32	12	9,500	15,230
Total resources	78,636	48,522	76,060	120,999	117,359	441,576
Liabilities:						
Deposit liabilities	49,147	4,402	10,041	2,505	222,572	288,667
Bills payable	16,009	13,906	5,185	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	5,109	-	-	-	6,243	11,352
Total liabilities	70,265	18,308	43,286	13,973	228,815	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	70,265	18,308	43,286	13,973	295,744	441,576
On-book gap	8,371	30,214	32,774	107,026	(178,385)	-
Cumulative on-book gap	8,371	38,585	71,359	178,385	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	8,371	30,214	32,774	107,026	(178,385)	-
Cumulative total gap	P 8,371	P 38,585	P 71,359	P 178,385	P -	P -

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company and RSB to maintain asset cover of 100% for foreign currency-denominated liabilities of their respective FCDUs.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. The results of these liquidity stress simulations are reported monthly to the ROC.

4.3 Market Risk

The Group'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 risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. While the Parent Company and RSB use VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

  - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

- The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

- VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

- In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

- VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

• Net Interest Income (NII)-at-Risk – more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Group employs a gap analysis to measure the interest rate sensitivity of its financial position (local and foreign currencies). As of a given reporting date, the interest rate gap analysis (see Note 4.3.2) measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Group's net profit. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Group's net profit. The rate movements assumed for measuring NII-at-Risk are consistent with a 99% confidence level with respect to historical rate volatility, assuming a one-year holding period. The Group considers the sum of NII-at-risk and the VaR of the FVPL and HTC portfolios as the Earnings-at-Risk (EaR) estimate.

• Capital-at-Risk (CaR) – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Group's economic value. The estimate, therefore, must consider the fair valuation effect of rate changes on non-trading positions. This includes both those positions with fair value changes against profit or loss, as well as those with fair value changes recognized directly in equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Group sets its CaR limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

• Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

• Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group			
	At December 31	**Average**	**Maximum**	**Minimum**
2018:				
Foreign currency risk	P 34	P 38	P 72	P 13
Interest rate risk	730	190	843	47
Overall	**P 764**	**P 228**	**P 915**	**P 60**
2017:				
Foreign currency risk	P 7	P 11	P 32	P 2
Interest rate risk	363	287	501	154
Overall	P 370	P 298	P 533	P 156
2016:				
Foreign currency risk	P 15	P 10	P 28	P 3
Interest rate risk	201	232	425	166
Overall	P 216	P 242	P 453	P 169

	Parent Company			
	At December 31	**Average**	**Maximum**	**Minimum**
2018:				
Foreign currency risk	P 34	P 38	P 71	P 13
Interest rate risk	672	153	773	44
Overall	**P 706**	**P 191**	**P 844**	**P 57**
2017:				
Foreign currency risk	P 7	P 11	P 31	P 2
Interest rate risk	147	125	277	40
Overall	P 154	P 136	P 308	P 42
2016:				
Foreign currency risk	P 15	P 9	P 27	P 3
Interest rate risk	83	102	217	70
Overall	P 98	P 111	P 244	P 73

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	**Philippine Pesos**	**Total**
2018:			
Resources:			
Cash and other cash items	P 1,554	P 15,838	P 17,392
Due from BSP	-	56,495	56,495
Due from other banks	19,470	872	20,342
Loans arising from reverse repurchase agreements	-	10,032	10,032
Financial assets at FVPL	3,088	4,482	7,570
Financial assets at FVOCI	506	21,481	21,987
Investment securities at amortized cost - net	73,224	15,668	88,892
Loans and receivables - net	75,755	322,545	398,300
Other resources	66	919	985
	P 173,663	**P 448,332**	**P 621,995**
Liabilities:			
Deposit liabilities	P 86,766	P 336,633	P 423,399
Bills payable	38,671	17,330	56,001
Bonds payable	53,090	-	53,090
Subordinated debt	-	9,986	9,986
Accrued interest and other expenses	849	4,135	4,984
Other liabilities	716	11,228	11,944
	P 180,092	**P 379,312**	**P 559,404**
2017:			
Resources:			
Cash and other cash items	P 1,029	P 13,664	P 14,693
Due from BSP	-	58,801	58,801
Due from other banks	17,922	1,896	19,818
Loans arising from reverse repurchase agreements	37	9,794	9,831
Financial assets at FVPL	1,144	6,447	7,591
Financial assets at FVOCI	51	5,312	5,363
Investment securities at amortized cost - net	50,044	9,934	59,978
Loans and receivables - net	54,940	299,303	354,243
Other resources	456	243	699
	P 125,623	P 405,394	P 531,017

	Group		
	Foreign Currencies	Philippine Pesos	Total
Liabilities:			
Deposit liabilities	P 71,868	P 316,544	P 388,412
Bills payable	36,598	7,369	43,967
Bonds payable	28,060	-	28,060
Subordinated debt	-	9,968	9,968
Accrued interest and other expenses	838	3,091	3,929
Other liabilities	4,157	6,359	10,516
	P 141,521	P 343,331	P 484,852

	Parent Company		
	Foreign Currencies	**Philippine Pesos**	**Total**
2018:			
Resources:			
Cash and other cash items	P 1,300	P 10,925	P 12,225
Due from BSP	-	39,847	39,847
Due from other banks	19,009	411	19,420
Loans and receivables arising from reverse repurchase agreement	-	4,000	4,000
Financial assets at FVPL	3,000	3,690	6,690
Financial assets at FVOCI	-	15,697	15,697
Investment securities at amortized cost - net	68,961	9,634	78,595
Loans and receivables - net	75,625	223,119	298,744
Other resources	66	805	871
	P 167,961	**P 308,128**	**P 476,089**
Liabilities:			
Deposit liabilities	P 79,482	P 222,928	P 302,410
Bills payable	43,404	5,355	48,759
Bonds payable	53,090	-	53,090
Subordinated debt	-	9,986	9,986
Accrued interest and other expenses	830	2,935	3,765
Other liabilities	621	7,421	8,042
	P 177,427	**P 248,625**	**P 426,052**

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2017:			
Resources:			
Cash and other cash items	P 868	P 9,547	P 10,415
Due from BSP	-	47,186	47,186
Due from other banks	17,839	529	18,368
Loans and receivables arising from reverse repurchase agreement	-	7,435	7,435
Financial assets at FVPL	1,145	5,408	6,553
Financial assets at FVOCI	15	3,424	3,439
Investment securities at amortized cost	45,507	2,634	48,141
Loans and receivables - net	54,845	210,946	265,791
Other resources	462	109	571
	P 120,681	P 287,218	P 407,899
Liabilities:			
Deposit liabilities	P 64,400	P 224,267	P 288,667
Bills payable	36,597	3	36,600
Bonds payable	28,060		28,060
Subordinated debt	-	9,968	9,968
Accrued interest and other expenses	796	2,213	3,009
Other liabilities	6,135	533	6,668
	P 135,988	P 236,984	P 372,972

4.3.2 Interest Rate Risk

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial assets and financial liabilities. The Group follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. ALCO meets at least on a weekly basis to set rates for various assets and liabilities and trading products. ALCO employs interest rate gap analysis to measure the interest rate sensitivity of those financial instruments.

The interest rate gap analyses of financial assets and financial liabilities as of end of the reporting period based on re-pricing maturities are shown on the succeeding pages. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;

- Debt securities at amortized cost are bucketed based on their re-pricing profile;

- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,

- For financial assets and financial liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

	Group 2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 44,797	P 423	P 856	P 112	P 67,595	P 113,783
Investments - net	1,227	7,063	22,311	70,923	17,348	118,872
Loans and receivables - net	225,566	31,295	71,307	18,113	42,497	388,778
Other resources - net	208	173	400	57	22,324	23,162
Total resources	271,798	38,954	94,874	89,205	149,764	644,595
Liabilities:						
Deposit liabilities	148,687	21,665	19,122	3,576	230,349	423,399
Bills payable	39,181	3,122	10,943	2,755	-	56,001
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	1,902	152	-	-	18,895	20,949
Total liabilities	189,770	24,939	83,155	16,317	249,244	563,425
Equity	-	-	-	-	81,170	81,170
Total liabilities and equity	189,770	24,939	83,155	16,317	330,414	644,595
On-book gap	82,752	14,015	11,719	72,888	(181,374)	-
Cumulative on-book gap	82,752	96,767	108,486	181,374	-	-
Contingent resources	15,844	-	-	-	-	15,844
Contingent liabilities	15,922	-	-	-	38	15,960
Off-book gap	(78)	-	-	-	(38)	(116)
Cumulative off-book gap	(78)	(78)	(78)	(78)	(116)	-
Periodic gap	**82,674**	**14,015**	**11,719**	**72,888**	**(181,412)**	**(116)**
Cumulative total gap	**P 82,674**	**P 96,689**	**P 108,408**	**P 181,296**	**(P 116)**	**P -**

	Group 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 31,016	P 261	P 484	P 80	P 71,340	P 103,181
Investments - net	9,712	1,969	14,818	32,915	13,935	73,349
Loans and receivables - net	163,355	40,828	87,289	31,778	30,955	354,205
Other resources - net	2,657	374	239	517	19,466	23,253
Total resources	206,740	43,432	102,830	65,290	135,696	553,988
Liabilities:						
Deposit liabilities	136,523	14,161	18,040	2,505	217,183	388,412
Bills payable	32,690	1,225	5,434	1,499	3,119	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	1,006	69	-	-	15,479	16,554
Total liabilities	170,219	15,455	51,534	13,972	235,781	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	170,219	15,455	51,534	13,972	302,808	553,988
On-book gap	36,521	27,977	51,296	51,318	(167,112)	-
Cumulative on-book gap	36,521	64,498	115,794	167,112	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	9,977	-	-	-	198	10,175
Off-book gap	(8)	-	-		(198)	(206)
Cumulative off-book gap	(8)	(8)	(8)	(8)	(206)	-
Periodic gap	36,513	27,977	51,296	51,318	(167,310)	(206)
Cumulative total gap	P 36,513	P 64,490	P 115,786	P 167,104	(P 206)	P -

	Parent Company 2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 32,943	P -	P -	P -	P 52,071	P 85,014
Investments - net	993	6,730	19,322	43,826	50,039	120,910
Loans and receivables - net	217,977	15,240	2,495	15,853	37,657	289,222
Other resources - net	-	2	23	2	15,750	15,777
Total resources	251,913	21,972	21,840	59,681	155,517	510,923
Liabilities:						
Deposit liabilities	85,231	11,504	10,674	3,579	191,422	302,410
Bills payable	36,531	1,631	9,141	1,456	-	48,759
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	1,305	-	-	-	14,298	15,603
Total liabilities	123,067	13,135	72,905	15,021	205,720	429,848
Equity	-	-	-	-	81,075	81,075
Total liabilities and equity	123,067	13,135	72,905	15,021	286,795	510,923
On-book gap	128,846,	8,837	(51,065)	44,660	(131,278)	
Cumulative on-book gap	128,846	137,683	86,618	131,278	-	
Contingent resources	15,703	-	-	-	-	15,703
Contingent liabilities	15,731	-	-	-	-	15,731
Off-book gap	(28)	-	-	-	-	(28)
Cumulative off-book gap	(28)	(28)	(28)	(28)	(28)	-
Periodic gap	**128,818**	**8,837**	**(51,065)**	**44,660**	**(131,278)**	**(28)**
Cumulative total gap	**P 128,818**	**P 137,655**	**P 86,590**	**P 131,250**	**(P 28)**	**P -**

	Parent Company 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 26,031	P -	P -	P -	P 57,411	P 83,442
Investments - net	9,021	506	11,903	46,207	9,514	77,151
Loans and receivables - net	157,341	27,556	29,093	29,122	22,641	265,753
Other resources - net	7	346	32	12	14,833	15,230
Total resources	192,400	28,408	41,028	75,341	104,399	441,576
Liabilities:						
Deposit liabilities	88,232	5,873	10,041	2,505	182,016	288,667
Bills payable	30,913	-	4,187	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	880	-	-	-	10,472	11,352
Total liabilities	120,025	5,873	42,288	13,973	192,488	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	120,025	5,873	42,288	13,973	259,417	441,576
On-book gap	72,375	22,535	(1,260)	61,368	(155,018)	-
Cumulative on-book gap	72,375	94,910	93,650	155,018	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	72,375	22,535	(1,260)	61,368	(155,018)	-
Cumulative total gap	P 72,375	P 94,910	P 93,650	P 155,018	P -	P -

The table below summarizes the potential impact on the Group's and the Parent Company's annual interest income of parallel rate shifts using the repricing profile shown in the previous pages.

	Changes in Interest Rates (in basis points)			
	- 100	**- 200**	**+ 100**	**+ 200**
December 31, 2018				
Group	**(P 1,167)**	**(P 2,334)**	**P 1,167**	**P 2,334**
Parent Company	**(1,420)**	**(2,841)**	**1,420**	**2,841**
December 31, 2017				
Group	(P 586)	(P 1,172)	P 586	P 1,172
Parent Company	(831)	(1,661)	831	1,661

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVPL or financial assets at FVOCI as of December 31, 2018 and 2017 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI estimate the potential loss and determine the market and position risk requirement on equity securities at FVPL in the computation of the market and position risk requirement for all equity positions.

RCAP uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCAP uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group 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 Enterprise Risk Division of CRISMS assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line. In addition, adverse economic and market conditions that may impact a certain borrower or a group of borrowers may trigger the Group to conduct a special credit review prior to expiry of credit line.

In 2018, CMG also started identifying homogenous target market and design Credit Programs that will accelerate credit processing of accounts without sacrificing underwriting quality, and, set up enhanced data framework that would deepen the Bank's ability to identify potential problem accounts earlier.

4.4.1 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency. The Group monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 11.1.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done in the context of ROC meetings.

4.4.2 Credit Risk Assessment

The Group's credit risk assessment is performed based on the different segments of financial asset portfolio such as (a) corporate, which generally include corporate banking group loans, commercial and small-medium size segment loans, lease contract and finance receivables, and unquoted debt securities classified as loan (UDSCL), (b) retail, which include housing, auto, credit cards, and microfinance lending; and, (c) treasury, which covers credit exposures on debt securities under the Group's HTC portfolio and FVOCI. The Group also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

(a) Corporate Loans

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Group'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 (or industry performance), 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 credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Group uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Group to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Parent Company has established a materiality threshold of P15 for all exposures classified under Stage 3. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Parent Company considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

The ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time; hence, could lead to the transfer of credit exposure in different stages of impairment. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between a risk rating of A and A- is lower than the difference in the PD between a B and B- risk rating).

In the process of applying the Group's ICRRS in determining the credit quality of loans and receivables, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Rating Scale	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions

Rating Scale	Rating Description/Criteria
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC and below*	Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses.
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.
Substandard	Have well-defined weakness(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

As part of credit risk assessment documentation and reporting, the Group includes financial instruments rated as AAA to B- under the "Pass" classification, while instruments rated CCC+ and below are grouped under the Watchlisted classification. Generally, "Pass" classification include loans and other credit accommodations that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans. These are credits that have the apparent ability and willingness to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. On the other hand, watchlisted counterparties are characterized by the following:

- those that belong to an unfavorable industry or has company-specific risk factors which represent a concern;
- the operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance;
- borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility;
- borrower incurs net losses and has salient financial weaknesses, reflected on their financial statements, specifically in profitability.

Split classification/rating may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as “substandard” or “doubtful”, as appropriate, while the unsecured portion shall be classified “loss” if there is no other source of payment other than the collateral.

In the case of syndicated loans, the Group shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with its policy. The lead financial institution or bank shall provide participating financial institutions with the credit information on the borrower upon request by the participating financial institutions and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(b) Retail Products

Credit Risk Management Division (CRMD) of RSB is, in turn, tasked to measure, control and manage credit risk on the consumer loans business of RSB through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the Credit Committee and Risk Committee, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of RSB is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

For the credit card portfolio of the Parent Company, credit risk assessment is performed through segmentation process to diversify the portfolio risk into different homogeneous populations or segments. Over-all account distribution is analyzed for three different snapshots with respect to month-on-month days past due to see consistency in the portfolio.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by the Group’s CMD in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(c) Debt Securities at Amortized Cost and at FVOCI

For debt securities, the Group adopts similar credit risk ratings published by reputable external rating agency (such as S&P). 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.

4.4.3 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group 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. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

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

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Using the Group's ICRR, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded by at least three notches and/or downgraded to CCC+ to Especially Mentioned. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Group's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Group recognizes a lifetime ECL for all credit-impaired financial assets.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Group's ICRRS, these are exposures rated at least Substandard. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Group, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Group's definition of curing period.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g. Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

4.4.4 Definition of Default

(a) Loans and receivables

The Group defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans of RSB and one day past due for micro-finance loan portfolio of Rizal Microbank. As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Group, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Group would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Group.

(b) Investments in debt securities

Investments in debt securities is 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 events, shall also be considered in estimating the ECL. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not 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 interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,

- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

4.4.5 Modifications of Financial Assets

In certain cases, the Group 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 Group 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 term or corporate loans.

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 Group monitors the performance of the financial asset subsequent to its modification.

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

4.4.6 Expected Credit Loss Measurement Inputs

Integral in the Group'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) Key Inputs and Assumptions in the Expected Credit Loss Model

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

(i) Probability of default (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. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures which considers both quantitative and qualitative factors. In determining PD, the Group performed segmentation of its credit exposures based on homogenous characteristics [including corporate loan and retail loan (including credit-card and microfinance)] and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

(ii) Loss given default (LGD) pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Group 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. For secured credit exposure, the determination of LGD is dependent on the Group's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

(iii) Exposure at default (EAD) represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast. For some financial assets (e.g., credit card lending), EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical technique which considers the ability of cardholders to increase its exposure from the time of ECL calculation to the time of default (i.e., credit conversion factor).

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of five years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default. Bad accounts are defaulted accounts classified into three classes such as the non-performing loans, accounts classified as Substandard, Doubtful or Loss, and real past due accounts.

In a risk rating model applied by the Group, a better rating or score denotes less probability of default than those of a worse rating. Identifying the counterparty default is done through a computation of the portfolio's observed default frequency (ODF). In cases when ODF method and the data to be used is limited, the Group may also employ the implied probability of default frequency (IPD) and the application of overlay factors in the PD. Using the historical defaults under the Group's ICRR system based on S&P scale, ODF is calculated per rating class using the cumulative five-year data as the basis for grouping. This represents the actual numbers of bad borrower cases that have occurred during the five-year timeframe. On the other hand, unrated account are distributed to existing S&P rating classes using normal distribution assumption. In cases when there is zero-percent ODF in any of the rating class, these are grouped together with the next rating class with at least one bad borrower using cumulative five-year data. If there is no rating class after certain rating, grouping shall be decided by management.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

For revolving products (such as credit cards and credit line facilities), EAD is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information discussed below.

(b) Overlay of Forward-looking Information

The Group incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Group has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for relevant portfolio of debt instruments.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables 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 Group includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Group has identified key drivers for credit risk for its corporate loans portfolio, which include among others, Gross Domestic Product (GDP) growth rate, inflation rate, interest rate (i.e., based on 91-day T-bill Yield), and foreign currency exchange rates. On the other hand, the key drivers for the Group's retail and consumer loans portfolio include unemployment rate, GDP growth rate, consumer spending growth rate, and inflation rate. Using an analysis of historical data, the Group 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 Group considers these forecasts to represent its best estimate of the possible outcomes.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.4.7 Credit Risk Exposures

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost and debt securities at FVOCI as of December 31, 2018. Loans and receivables portfolio was summarized based on financial assets segmentation for ECL assessment purposes.

	Group		Parent Company	
	2018	2017	**2018**	2017
Corporate loans	**P 280,953**	P 260,174	**P 271,212**	P 250,784
Retail products				
Housing loans	**48,661**	42,403	**-**	-
Credit cards	**21,550**	16,405	**21,550**	16,405
Other retail products:				
Auto loans	**40,968**	36,590	**-**	-
Microfinance	**1,219**	975	**-**	-
Other receivables from customers	**5,718**	5,651	**3,501**	3,506
Total receivables from customers	**399,069**	362,198	**296,263**	270,695
Cash equivalents	**96,391**	88,488	**72,789**	73,027
Debt securities				
At amortized cost	**89,027**	60,068	**78,621**	48,141
At FVOCI	**15,526**	-	**12,021**	-
	P 600,013	P 510,754	**P 459,694**	P 391,863

Other receivables from customers include sales contract receivables, accrued interest on debt securities, and other receivables.

Cash equivalents includes loans and advances to banks (i.e., Due from BSP, Due from Other Banks, Loans under Reverse Repurchase Agreements, and Interbank Loans Receivables), see Note 9. These are held with central bank and financial institutions counterparties that are reputable and with low credit risk.

The information about the credit exposures on the above financial assets as well as on loan commitments by stages of impairment as of December 31, 2018, shown at their gross carrying amounts with the corresponding allowance for ECL are shown in the succeeding pages. All instruments, which were not assessed by the Group for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument.

The maximum exposure to credit risks for other financial assets including loan commitments is limited to their carrying values as of December 31, 2018 and 2017.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Pass					
AAA to BBB	P 8,158	P 4	P 1	P -	P 8,163
BBB- to B-	252,062	495	221	-	252,778
Watchlisted	60	3,348	7,610	-	11,018
Especially mentioned	11	343	90	-	444
Defaulted	687	316	4,074	52	5,129
Unrated	1,081	6	2,334	-	3,421
	262,059	4,512	14,330	52	280,953
Allowance for ECL	(698)	(729)	(5,036)	(36)	(6,499)
Carrying amount	**P 261,361**	**P 3,783**	**P 9,294**	**P 16**	**P 274,454**

Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC – JPL which were acquired as credit-impaired prior to 2018.

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Housing loans				
Unclassified	P 41,764	P -	P -	P 41,764
Especially mentioned	331	65	-	396
Substandard	118	5,161	1,032	6,311
Loss	-	-	190	190
	42,213	5,226	1,222	48,661
Allowance for ECL	(145)	(395)	(437)	(977)
Carrying amount	42,068	4,831	785	47,684
Credit cards				
Current	19,815	20	-	19,835
1-29 dpd	430	5	-	435
30-59 dpd	-	220	-	220
60-89 dpd	-	168	-	168
Defaulted	-	-	892	892
	20,245	413	892	21,550
Allowance for ECL	(380)	(163)	(757)	(1,300)
Carrying amount	19,865	250	135	20,250
Other products				
Unclassified	34,869	396	51	35,316
Especially mentioned	21	9	-	30
Substandard	1,730	4,300	740	6,770
Doubtful	-	-	42	42
Loss	-	-	29	29
	36,620	4,705	862	42,187
Allowance for ECL	(204)	(191)	(253)	(648)
Carrying amount	36,416	4,514	609	41,539
	P 98,349	**P 9,595**	**P 1,529**	**P 109,473**
Total gross amount	P 99,078	P 10,344	P 2,976	P 112,398
Total allowance for ECL	(729)	(749)	(1,447)	(2,925)
Total carrying amount	**P 98,349**	**P 9,595**	**P 1,529**	**P 109,473**

	Other Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 1,159	P -	P -	P 1,159
BBB- to B-	203	-	-	203
Watchlisted	-	1	-	1
Defaulted	-	211	232	443
Unrated	3,452	131	329	3,912
	4,814	343	561	5,718
Allowance for ECL	(317)	(129)	(421)	(867)
Carrying amount	**P 4,497**	**P 214**	**P 140**	**P 4,851**

b) Loans and receivables - Parent

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 8,139	P 4	P 1	P 8,144
BBB- to B-	246,540	24	221	246,785
Watchlisted	60	2,602	7,610	10,272
Especially mentioned	-	248	90	338
Defaulted	-	-	2,575	2,575
Unrated	1,903	6	1,189	3,098
	256,642	2,884	11,686	271,212
Allowance for ECL	(596)	(297)	(4,348)	(5,241)
Carrying amount	**P 256,046**	**P 2,587**	**P 7,338**	**P 265,971**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Current	P 19,815	P 20	P -	P 19,835
1-29 dpd	430	5	-	435
30-59 dpd	-	220	-	220
60-89 dpd	-	168	-	168
Defaulted	-	-	892	892
	20,245	413	892	21,550
Allowance for ECL	(380)	(163)	(757)	(1,300)
Carrying amount	**P 19,865**	**P 250**	**P 135**	**P 20,250**

	Other Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 1,159	P -	P -	P 1,159
BBB- to B-	197	-	-	197
Defaulted	-	211	199	410
Unrated	1,703	-	32	1,735
	3,059	211	231	3,501
Allowance for ECL	(317)	(21)	(162)	(500)
Carrying amount	**P 2,742**	**P 190**	**P 69**	**P 3,001**

c) Investments in debt securities at amortized cost and at FVOCI

	Group		Parent Company	
	HTC	FVOCI	HTC	FVOCI
Government securities				
AA+ to A+	P 2,058	P -	P 2,058	P -
BBB+ to BBB-	64,026	15,138	55,326	12,021
	66,084	15,138	57,384	12,021
Corporate debt securities				
AAA	1,352	-	1,352	-
AA+ to A+	2,255	-	2,255	-
A to A-	1,283	-	1,283	-
BBB+ to BBB-	12,135	5	11,967	-
BB+ to BB-	5,828	383	4,380	-
B+ and below	90	-	-	-
	22,943	388	21,237	-
Allowance for ECL	(135)	-	(26)	-
	22,808	388	21,211	-
	P 88,892	**P 15,526**	**P 78,595**	**P 12,021**

Credit exposures for debt securities not held for trading are all classified as Stage 1.

d) Loan commitments

The credit quality of the Group's and Parent Company's irrevocable loan commitments with amounts determined after considering credit conversion factor, as of December 31, 2018 follows:

	Group and Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans				
Pass				
AAA to BBB	P 1,479	P -	P -	P 1,479
BBB- to B-	24,967	-	-	24,967
Watchlisted	-	16	-	16
Unrated	657	-	-	657
	27,103	16	-	27,119
Allowance for ECL	(10)	-	-	(10)
	27,093	16	-	27,109
Credit cards				
Current	54,153	37	-	54,190
1-29 dpd	341	7	-	348
30-59 dpd	-	71	-	71
60-89 dpd	-	45	-	45
Defaulted	-	-	241	241
	54,494	160	241	54,895
Allowance for ECL	(84)	-	-	(84)
	54,410	160	241	54,811
	P 81,503	**P 176**	**P 241**	**P 81,920**

4.4.8 Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2018.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Credit-impaired**	**Total**
Balance at beginning of year	P 757	P 1,574	P 3,484	P 46	P 5,861
Transfers:					
Stage 1 to Stage 2	(290)	290	-	-	-
Stage 1 to Stage 3	(42)	-	42	-	-
Stage 2 to Stage 1	324	(324)	-	-	-
Stage 2 to Stage 3	-	(430)	430	-	-
Stage 3 to Stage 1	1	-	(1)	-	
Stage 3 to Stage 2	-	403	(403)	-	-
Assets derecognized or repaid	(319)	(877)	(331)	-	(1,527)
New assets originated:					
Remained in Stage 1	447	-	-	-	447
Moved to Stage 2 and 3	-	188	1,801	-	1,989
Write-offs	-	-	(148)	-	(148)
Others	(180)	(95)	162	(10)	(123)
	(59)	(845)	1,552	(10)	638
Balance at end of year	**P 698**	**P 729**	**P 5,036**	**P 36**	**P 6,499**

	Retail Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing loans				
Balance at beginning of year	P 147	P 180	P 767	P 1,094
Transfers:				
Stage 1 to Stage 2	(33)	33	-	-
Stage 2 to Stage 1	327	(327)	-	-
Stage 2 to Stage 3	-	(165)	165	-
Stage 3 to Stage 2		423	(423)	-
Asset derecognized or repaid	(359)	(114)	(75)	(548)
New assets originated:				
Remained in Stage 1	63	-	-	63
Moved to Stage 2 and 3	-	365	3	368
	(2)	215	(330)	(117)
Balance at end of year	145	395	437	977

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 260	P 355	P 439	P 1,054
Transfers:				
Stage 1 to Stage 2	(9)	9	-	-
Stage 1 to Stage 3	(25)	-	25	-
Stage 2 to Stage 1	28	(28)	-	-
Stage 2 to Stage 3	-	(61)	61	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	76	-	-	76
Moved to Stage 2 and 3	-	23	33	56
Write-offs	-	-	(1,129)	(1,129)
Others	36	(177)	1,384	1,243
	120	(192)	318	246
Balance at end of year	380	163	757	1,300
Other products				
Balance at beginning of year	P 90	P 270	P 395	P 755
Transfers:				
Stage 1 to Stage 2	(55)	55	-	-
Stage 1 to Stage 3	(1)	-	1	-
Stage 2 to Stage 1	14	(14)	-	-
Stage 2 to Stage 3	-	(36)	36	-
Assets derecognized or repaid	(11)	(234)	(172)	(417)
New assets originated:				
Remained in Stage 1	167	-	-	167
Moved to Stage 2	-	156	-	156
Write-offs	-	(6)	(7)	(13)
	114	(79)	(142)	(107)
Balance at end of year	204	191	253	648
	P 729	**P 749**	**P 1,447**	**P 2,925**

b) Loans and receivables - Parent

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 693	P 1,203	P 2,901	P 4,797
Transfers:				
Stage 1 to Stage 2	(1)	1	-	-
Stage 1 to Stage 3	(1)	-	1	-
Stage 2 to Stage 1	13	(13)	-	-
Stage 3 to Stage 1	1	-	(1)	-
Assets derecognized or repaid	(319)	(877)	(313)	(1,509)
New assets originated:				
Remained in Stage 1	390	-	-	390
Moved to Stage 2 and 3	-	78	1,746	1,824
Write-offs	-	-	(148)	(148)
Others	(180)	(95)	162	(113)
	(97)	(906)	1,447	444
Balance at end of year	**P 596**	**P 297**	**P 4,348**	**P 5,241**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 260	P 355	P 439	P 1,054
Transfers:				
Stage 1 to Stage 2	(9)	9	-	-
Stage 1 to Stage 3	(25)	-	25	-
Stage 2 to Stage 1	28	(28)	-	-
Stage 2 to Stage 3		(61)	61	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2		42	(42)	-
New assets originated:				
Remained in Stage 1	76	-	-	76
Moved to Stage 2 and 3	-	23	33	56
Write-offs	-	-	(1,129)	(1,129)
Others	36	(177)	1,384	1,243
	120	(192)	318	246
Balance at end of year	**P 380**	**P 163**	**P 757**	**P 1,300**

c) *Investments in debt securities at amortized cost and at FVOCI*

In 2018, the Group and Parent Company has recognized ECL amounting to P45 and P15, respectively, for investments in debt securities at amortized cost, which are all in Stage 1, resulting in allowance for ECL as of December 31, 2018 amounting to P135. No ECL was recognized for debt securities at FVOCI acquired during the year.

d) *Loan commitments*

Allowance for ECL recognized both by the Group and Parent Company related to undrawn loan commitments as of December 31, 2018 amounted to P94, presented as ECL provisions on loan commitments under Other Liabilities account (see Note 22). ECL recognized in profit or loss in 2018 amounted to recovery of P13.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.4.9.

4.4.9 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below provides information how the significant changes in the gross carrying amount of financial instruments in 2018 contributed to the changes in the allowance for ECL.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Credit-impaired**	**Total**
Balance at beginning of year	P 241,246	P 12,298	P 6,560	P 70	P 260,174
Transfers:					
Stage 1 to Stage 2	(1,648)	1,648	-	-	-
Stage 1 to Stage 3	(123)	-	123	-	-
Stage 2 to Stage 1	1,442	(1,442)	-	-	-
Stage 2 to Stage 3	-	(745)	745	-	-
Stage 3 to Stage 1	2	-	(2)	-	-
Stage 3 to Stage 2	-	932	(932)	-	-
Assets derecognized or repaid	(109,091)	(11,114)	(989)	(18)	(121,212)
New assets originated:					
Remained in Stage 1	130,231	-	-	-	130,231
Moved to Stage 2 and 3	-	2,935	8,973	-	11,908
Write-offs	-	-	(148)	-	(148)
	20,813	(7,786)	7,770	(18)	20,779
Balance at end of year	**P 262,059**	**P 4,512**	**P 14,330**	**P 52**	**P 280,953**

	Retail Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing loans				
Balance at beginning of year	P 41,165	P 922	P 1,675	P 43,762
Transfers:				
Stage 1 to Stage 2	(3,283)	3,283	-	-
Stage 1 to Stage 3	-	-	-	-
Stage 2 to Stage 1	394	(394)	-	-
Stage 2 to Stage 3	-	(2,020)	2,020	-
Stage 3 to Stage 2	-	2,115	(2,115)	-
Assets derecognized or repaid	(3,636)	(908)	(364)	(4,908)
New assets originated:				
Remained in Stage 1	7,573	-	-	7,573
Moved to Stage 2 and 3	-	2,228	6	2,234
	42,213	5,226	1,222	48,661

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	15,488	478	439	16,405
Transfers:				
Stage 1 to Stage 2	(300)	300	-	-
Stage 1 to Stage 3	(490)	-	490	-
Stage 2 to Stage 1	39	(39)	-	-
Stage 2 to Stage 3	-	(83)	83	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	3,972	-	-	3,972
Moved to Stage 2 and 3	-	58	45	103
Write-offs	-	-	(1,129)	(1,129)
Others	1,522	(343)	1,020	2,199
	20,245	413	892	21,550
Other products				
Balance at beginning of year	P 32,807	P 4,137	P 625	P 37,569
Transfers:				
Stage 1 to stage 2	(350)	350	-	-
Stage 1 to stage 3	(73)	-	73	-
Stage 2 to stage 1	266	(266)	-	-
Stage 2 to stage 3	-	(388)	388	-
Stage 3 to stage 2	-	-	-	-
Assets derecognized or repaid	(999)	(1,084)	(217)	(2,300)
New assets originated:				
Remained in Stage 1	4,969	-	-	4,969
Moved to Stage 2 and 3	-	1,961	-	1,961
Write-offs	-	(5)	(7)	(12)
	36,620	4,705	862	42,187
Balance at end of year	**P 99,078**	**P 10,344**	**P 2,976**	**P 112,398**

b) Loans and receivables - Parent

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 236,435	P 10,465	P 3,884	P 250,784
Transfers:				
Stage 1 to Stage 2	(49)	49	-	-
Stage 1 to Stage 3	(109)	-	109	-
Stage 2 to Stage 1	95	(95)	-	-
Stage 3 to Stage 1	2	-	(2)	-
Assets derecognized or repaid	(109,033)	(9,519)	(927)	(119,479)
New assets originated:				
Remained in Stage 1	129,301	-	-	129,301
Moved to Stage 2 and 3	-	1,984	8,770	10,754
Write-offs	-	-	(148)	(148)
	20,207	(7,581)	7,802	20,428
Balance at end of year	**P 256,642**	**P 2,884**	**P 11,686**	**P 271,212**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 15,488	P 478	P 439	P 16,405
Transfers:				
Stage 1 to Stage 2	(300)	300	-	-
Stage 1 to Stage 3	(490)	-	490	-
Stage 2 to Stage 1	39	(39)	-	-
Stage 2 to Stage 3	-	(83)	83	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	3,972	-	-	3,972
Moved to Stage 2 and 3	-	58	45	103
Write-offs	-	-	(1,129)	(1,129)
Others	1,522	(343)	1,020	2,199
	4,757	(65)	453	5,145
Balance at end of year	**P 20,245**	**P 413**	**P 892**	**P 21,550**

The Group's receivables arising from salary loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which were provided with full ECL allowance.

Allowance for ECL for other receivables increased by P411 and P296 for the Group and the Parent Company, respectively, in 2018 from the allowance for ECL recognized at the beginning of the year amounting to P456 and P204, for the Group and the Parent Company, respectively. At the Group level, the significant transaction that mainly contributed to this change pertains to the P316 increase in accounts receivables recognized by a subsidiary which were classified as Stage 3 as of December 31, 2018. On the other hand, increase in the allowance for ECL of the Parent Company is mainly attributed to a certain defaulted other receivable amounting to P120 classified as Stage 3.

c) Investment in debt securities at amortized cost and at FVOCI

	Group		Parent Company	
	HTC	FVOCI	HTC	FVOCI
Balance at beginning of year	P 60,068	P -	P 48,141	P -
Effect of adoption of PFRS 9 (see Note 2.2)	(261)	415	54	-
Assets purchased	77,488	19,828	76,286	16,364
Assets derecognized	(48,268)	(4,690)	(45,860)	(4,493)
Fair value gains	-	(27)	-	150
Balance at end of year	**P 89,027**	**P 15,526**	**P 78,621**	**P 12,021**

4.4.10 *Impaired Financial Assets – Comparative Information under PAS 39*

For comparative information, the table below provides the details of exposures to credit risk as of December 31, 2017, summarized based on the Group's impairment assessment methodology under PAS 39.

	Group		Parent	
	Loans and Receivables	Trading and Investment Securities	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
Especially mentioned	P 1,308	P -	P -	P -
Sub-standard	4,181	-	995	-
Doubtful	250	-	22	-
Loss	1,222	-	159	-
Gross amount	6,961	-	1,176	-
Unearned interest and discount	(46)	-	-	-
Allowance for impairment	(2,249)	-	(276)	-
Carrying amount	4,666	-	900	-
Collectively Assessed for Impairment				
Unrated	103,319	-	18,314	-
BBB+ to BBB-	21,128	-	21,128	-
BB+ to BB	40,848	-	40,848	-
BB- to BB	76,321	-	76,321	-
B to B-	105,963	-	105,480	-
CCC+ and below	581	-	581	-
Especially mentioned	105	-	105	-
Sub-standard	678	-	678	-
Doubtful	726	-	656	-
Loss	125	-	125	-
Gross amount	349,794	-	264,236	-
Unearned interest and discount	(771)	-	(332)	-
Allowance for impairment	(4,451)	-	(3,632)	-
Carrying amount	344,572	-	260,272	-
UDSCL	1,939	-	1,177	-
Other receivables	4,359	-	4,476	-
Allowance for impairment	(1,293)	-	(1,034)	-
Carrying amount	5,005	-	4,619	-
Neither Past Due Nor Impaired	-	68,879	-	54,004
Total Carrying Amount	P 354,243	P 68,879	P 265,791	P 54,004

4.4.11 Collateral Held as Security and Other Credit Enhancements

The Group 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. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2018 and 2017.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2018 are presented below.

	Group			
	Stage 1	Stage 2	Stage 3	Total
Real properties	P 128,714	P 19,441	P 5,656	P 153,811
Chattel	51,450	21,290	4,286	77,026
Hold-out deposits	9,175	21	620	9,816
Equity securities	6,437	-	-	6,437
Others	36,405	275	1,096	37,776
	P 232,181	**P 41,027**	**P 11,658**	**P 284,866**

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Real properties	P 92,120	P 10,891	P 3,787	P 106,798
Hold-out deposits	9,175	21	274	9,470
Equity securities	6,437	-	-	6,437
Chattel	5,398	37	-	5,435
Others	32,799	241	740	33,780
	P 145,929	**P 11,190**	**P 4,801**	**P 161,920**

The comparative information on the estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2017 based on PAS 39 credit quality description is shown below.

		Group		Parent Company
Against individually impaired				
Real property	P	1,164	P	1,164
Chattels		207		-
Against classified accounts but not impaired				
Real property		54,256		42,594
Chattels		10,959		1,434
Equity securities		5,356		5,356
Others		630		270
Against neither past due nor impaired				
Real property		95,088		76,200
Chattels		55,026		-
Hold-out deposits		15,799		14,380
Others		28,017		25,105
	P	266,502	P	166,503

The Group and Parent Company has recognized certain properties arising from foreclosures in settlement of loan account amounting to P672 and P202, respectively, in 2018 and P2,360 and P19, respectively, in 2017 (see Note 14.1).

The Group's and Parent Company'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 Group and Parent Company does not generally use the non-cash collateral for its own operations.

There were no changes in the Group and Parent Company's collateral policies in 2018 and 2017.

4.4.12 Write-offs

The Group 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 Group'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.

4.4.13 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopts a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

4.5 Operational Risk

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

The Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMD applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded designated operational risk officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

- KRIs are used to monitor the operational risk profile of the Group and of each business unit, and alert management of impending problems in a timely fashion;

- Internal loss information is collected, reported, and utilized to model operational risk; and,

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Marketing Council chaired by the head of the Parent Company's Chief Marketing Officer.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Group by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit and Compliance Committee and the BOD.

4.6 Anti-Money Laundering Controls

The 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 (CFT) 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group Head's approval is necessary.

The Group'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 2016, the Group instituted reforms aimed to reinforce its AML/CFT controls. The Group 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 Group 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 Group's personnel. In the latter part of 2016 to the first quarter of 2017, the Group 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 Group's regular training program.

In addition to the Group's existing transaction monitoring system, the Group has also subscribed to an international watchlist database in 2017 to further strengthen its screening capabilities for client on-boarding and cross-border transactions.

The Group 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, 2017, the AML Board Committee was created to meet on a monthly basis and provide oversight of AML related activities of the Bank.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, RSB, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P2,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) Common Equity Tier 1 Capital includes the following:

(i) paid-up common stock;
(ii) common stock dividends distributable;
(iii) additional paid-in capital;
(iv) deposit for common stock subscription;
(v) retained earnings;
(vi) undivided profits;
(vii) other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
(viii) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

- *(i)* instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- *(ii)* financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- *(iii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iv)* additional paid-in capital resulting from issuance of AT1 capital;
- *(v)* deposit for subscription to AT1 instruments; and,
- *(vi)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

- *(i)* instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- *(ii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iii)* deposit for subscription of Tier 2 capital;
- *(iv)* appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB);
- *(v)* general loan loss provisions; and,
- *(vi)* minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based Capital Adequacy Ratio, the total Qualifying Capital is expressed as a percentage of Total Risk Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by credit risk mitigation (CRM).

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular 538.

The Group's and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as of December 31, 2018 and 2017 follows:

	Group		Parent Company	
2018:				
Tier 1 Capital				
CET 1	**P**	**67,539**	**P**	**53,512**
AT1		**3**		**3**
		67,542		**53,515**
Tier 2 Capital		**13,871**		**13,173**
Total Qualifying Capital	**P**	**81,413**	**P**	**66,688**
Total Risk – Weighted Assets	**P**	**504,657**	**P**	**404,136**
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk-weighted assets		**16.13%**		**16.50%**
Tier 1 Capital Ratio		**13.38%**		**13.24%**
Total CET 1 Ratio		**13.38%**		**13.24%**
2017:				
Tier 1 Capital				
CET 1	P	54,326	P	40,873
AT1		3		3
		54,329		40,876
Tier 2 Capital		13,115		12,456
Total Qualifying Capital	P	67,444	P	53,332
Total Risk – Weighted Assets	P	436,269	P	347,932
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk weighted assets		15.46%		15.33%
Tier 1 Capital Ratio		12.45%		11.75%
Total CET 1 Ratio		12.45%		11.75%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;
(b) The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;
(c) The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a business-as-usual (BAU) and stressed scenario;
(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,
(e) The Bank's ICAAP document must be submitted to the BSP every January 31 of each year, beginning 2011.

The Group submitted its first ICAAP trial document in January 2009. Subsequent revisions to the trial document were made, and likewise submitted in February 2010 and May 2010 following regulatory review and the Group's own process enhancements. Complementing the ICAAP document submissions were dialogues between the BSP and the Group's representatives, the second of which transpired last November 2010 between a BSP panel chaired by the Deputy Governor for Supervision and Examination, and the members of the Parent Company's EXCOM. The Group submitted its final ICAAP document within the deadline set by the BSP. Henceforth up to 2014, the annual submission of an ICAAP document is due every January 31^{st} and every March 31^{st} starting in 2015, as prescribed by the BSP.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the Comprehensive Concentration Index (CCI). The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

(b) *Interest Rate Risk in the Banking Book (IRRBB)* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group estimates interest rate risk in the banking book as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(c) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(d) *Information Technology Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

(e) *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For Business-as-usual scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a business-as-usual case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Public Relations Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 113,783**	**P 113,783**	P 103,181	P 103,181
Investment securities - net	**88,892**	**86,876**	59,978	56,396
Loans and receivables - net	**388,778**	**401,745**	354,205	358,354
Other resources	**985**	**985**	699	699
	592,438	**603,389**	518,063	518,630
At fair value:				
Investment securities at FVPL	**7,570**	**7,570**	7,591	7,591
Investment securities at FVOCI	**21,987**	**21,987**	5,363	5,363
	29,557	**29,557**	12,954	12,954
	P 621,995	**P 632,946**	P 531,017	P 531,584

	Group			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 423,399**	**P 424,437**	P 388,412	P 388,528
Bills payable	**56,001**	**56,001**	43,967	43,967
Bonds payable	**53,090**	**55,281**	28,060	29,465
Subordinated debt	**9,986**	**9,955**	9,968	10,299
Accrued interest and other expenses	**4,984**	**4,984**	3,929	3,929
Other liabilities	**11,944**	**11,944**	10,516	10,516
	559,404	**562,602**	484,852	486,704
At fair value –				
Derivative financial liabilities	**894**	**894**	483	483
	P 560,298	**P 563,496**	P 485,335	P 487,187

	Parent Company			
	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At amortized cost				
Cash and cash equivalents	**P 85,014**	**P 85,014**	P 83,442	P 83,442
Investment securities - net	**78,595**	**76,228**	48,141	47,784
Loans and receivables - net	**289,222**	**299,846**	265,753	266,382
Other resources	**871**	**871**	571	571
	453,702	**461,959**	397,907	398,179
At fair value:				
Investment securities at FVPL	**6,690**	**6,690**	6,553	6,553
Investment securities at FVOCI	**15,697**	**15,697**	3,439	3,439
	22,387	**22,387**	9,992	9,992
	P 476,089	**P 484,346**	P 407,899	P 408,171
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 302,410**	**P 303,448**	P 288,667	P 288,783
Bills payable	**48,759**	**48,759**	36,600	36,600
Bonds payable	**53,090**	**55,281**	28,060	29,465
Subordinated debt	**9,986**	**9,955**	9,968	10,299
Accrued interest and other expenses	**3,765**	**3,765**	3,009	3,009
Other liabilities	**8,042**	**8,042**	6,668	6,668
	426,052	**429,250**	372,972	374,824
At fair value –				
Derivative financial liabilities	**894**	**894**	483	483
	P 426,946	**P 430,144**	P 373,455	P 375,307

Except for investment securities at amortized cost, bonds payable and subordinated debt with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group's and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Group				
			Related amounts not set off in the statements of financial position		
	Notes	Gross amounts recognized in the statements of financial position	Financial instruments	Collateral received	Net amount
December 31, 2018					
Loans and receivables – Receivable from customers	11	**P 389,073**	**(P 9,814)**	**(P 6,437)**	**P 372,822**
Trading and investment securities – Investment securities at amortized cost	10	**118,449**	**(25,438)**	**-**	**93,011**
Other resources – Margin deposits	15	**19**	**-**	**(19)**	**-**
December 31, 2017					
Loans and receivables – Receivable from customers	11	P 352,845	(P 15,799)	(P 5,356)	P 331,690
Trading and investment securities – Investment securities at amortized cost	10	72,932	(7,437)	-	65,495
Other resources – Margin deposits	15	23	-	(23)	-

	Notes		Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments		Collateral received		Net amount
			Parent Company					
December 31, 2018								
Loans and receivables – Receivable from customers	11	**P**	**289,940**	**(P**	**9,470)**	**(P**	**6,437)**	**P 274,033**
Trading and investment securities – Investment securities at amortized cost	10		**100,982**	**(**	**25,438)**		**-**	**75,544**
Other resources – Margin deposits	15		**19**		**-**	**(**	**19)**	**-**
December 31, 2017								
Loans and receivables – Receivable from customers	11	P	264,631	(P	14,380)	(P	5,356)	P 244,895
Trading and investment securities – Investment securities at amortized cost	10		58,133	(	7,437)		-	50,696
Other resources – Margin deposits	15		23		-	(	23)	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Notes		Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments		Collateral received		Net amount
			Group					
December 31, 2018								
Deposit liabilities	17	**P**	**423,399**	**(P**	**9,814)**	**P**	**-**	**P 413,585**
Bills payable	18		**56,001**	**(**	**25,438)**		**-**	**30,563**
Other liabilities – Derivative financial liabilities	22		**894**		**-**	**(**	**862)**	**32**
December 31, 2017								
Deposit liabilities	17	P	388,412	(P	15,799)	P	-	P 372,613
Bills payable	18		43,967	(	7,437)		-	36,530
Other liabilities – Derivative financial liabilities	22		483		-	(	23)	460

	Notes		Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments		Collateral received		Net amount
			Parent Company					
December 31, 2018								
Deposit liabilities	17	**P**	**302,410**	**(P**	**9,470)**	**P**	**-**	**P 292,940**
Bills payable	18		**48,759**	**(**	**25,438)**		**-**	**23,321**
Other liabilities – Derivative financial liabilities	22		**894**		**-**	**(**	**19)**	**875**
December 31, 2017								
Deposit liabilities	17	P	288,667	(P	14,380)	P	-	P 274,287
Bills payable	18		36,600	(	7,437)		-	29,163
Other liabilities – Derivative financial liabilities	22		483		-	(	23)	460

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Group and its counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits and equity securities which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreements; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2018 and 2017.

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2018:				
Financial assets at FVPL:				
Government securities	P 3,511	P -	P -	P 3,511
Corporate debt securities	1,660	-	-	1,660
Equity securities	675	-		675
Derivative assets	-	1,724	-	1,724
	5,846	1,724	-	7,570
Financial assets at FVOCI –				
Equity securities	2,045	427	3,989	6,461
Government securities	15,138	-	-	15,138
Corporate debt securities	388	-	-	388
	17,571	427	3,989	21,987
Total Resources at Fair Value	**P 23,417**	**P 2,151**	**P 3,989**	**P 29,557**
Derivative liabilities	**P -**	**P 894**	**P -**	**P 894**
2017:				
Financial assets at FVPL:				
Government securities	P 4,386	P -	P -	P 4,386
Corporate debt securities	462	-	-	462
Equity securities	1,081	-	543	1,624
Derivative assets	29	1,090	-	1,119
	5,958	1,090	543	7,591
Financial assets at FVOCI – Equity securities	3,456	197	1,710	5,363
Total Resources at Fair Value	P 9,414	P 1,287	P 2,253	P 12,954
Derivative liabilities	P -	P 483	P -	P 483

	Parent Company			
	Level 1	Level 2	Level 3	Total
2018:				
Financial assets at FVPL:				
Government securities	P 3,419	P -	P -	P 3,419
Corporate debt securities	1,547	-	-	1,547
Derivative assets	-	1,724	-	1,724
	4,966	1,724	-	6,690
Financial assets at FVOCI –				
Equity securities	1,475	255	1,946	3,676
Government securities	12,021	-	-	12,021
	13,496	255	1,946	15,697
Total Resources at Fair Value	**P 18,462**	**P 1,979**	**P 1,946**	**P 22,387**
Derivative liabilities	**P -**	**P 894**	**P -**	**P 894**
2017:				
Financial assets at FVPL:				
Government securities	P 4,289	P -	P -	P 4,289
Corporate debt securities	455	-	-	455
Equity securities	147	-	543	690
Derivative assets	29	1,090	-	1,119
	4,920	1,090	543	6,553
Financial assets at FVOCI – Equity securities	1,761	197	1,481	3,439
Total Resources at Fair Value	P 6,681	P 1,287	P 2,024	P 9,992
Derivative liabilities	P -	P 483	P -	P 483

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) Government and Corporate Debt Securities

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which had been based on price quoted or actually dealt in an active market. For other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of December 31, 2018 and 2017 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as market-based approach (price-to-book value method) using current market values of comparable listed entities, discounted cash flow method, net asset value method, or dividend discounted model.

The price-to-book value method use to value a certain equity security of the Parent Company uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value adjusted by a certain valuation discount. The price-to-book ratio used in the fair value measurement as of December 31, 2018 and 2017 ranges from 0.620:1 to 2.110:1 and from 0.578:1 to 2.290:1, respectively. Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

For a certain preferred equity security, the Group has used the discounted cash flow method applying a discount rate of 6.28% to determine the present value of future cash flows from dividends or redemption expected to be received from the instrument.

A reconciliation of the carrying amounts of Level 3 equity securities at the beginning and end of 2018 and 2017 is shown below.

	Group		
	Financial Assets at FVOCI	**Financial Assets at FVPL**	**Total**
2018:			
Balance at beginning of year	P 1,710	P 543	P 2,253
Additions	2,000	-	2,000
Reclassification	543	(543)	-
Fair value losses - net	(264)	-	(264)
Balance at end of year	**P 3,989**	**P -**	**P 3,989**
2017:			
Balance at beginning of year	P 1,744	P 586	P 2,330
Fair value losses	(34)	(43)	(77)
Balance at end of year	P 1,710	P 543	P 2,253

	Parent Company		
	Financial Assets at FVOCI	Financial Assets at FVPL	Total
2018:			
Balance at beginning of year	P 1,481	P 543	P 2,024
Reclassifications	543	(543)	-
Fair value losses - net	(78)	-	(78)
Balance at end of year	**P 1,946**	**P -**	**P 1,946**
2017:			
Balance at beginning of year	P 1,515	P 586	P 2,101
Fair value losses	(34)	(43)	(77)
Balance at end of year	P 1,481	P 543	P 2,024

As permitted by the transitional provisions under PFRS 9, the Parent Company has reclassified by designation at January 1, 2018 certain private equity securities with fair value of P543 from FVPL category as of December 31, 2017 to FVOCI [see Note 2.2(a)].

There were neither transfers between the levels of the fair value hierarchy nor gains or losses recognized in the statements of profit or loss for Level 3 financial assets in 2018 and 2017.

(c) *Derivative Assets and Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available in Bloomberg for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
2018:				
Financial Assets:				
Cash and other cash items	P 17,392	P -	P -	P 17,392
Due from BSP	56,495	-	-	56,495
Due from other banks	20,342	-	-	20,342
Loans arising from reverse repurchase agreement	10,032	-	-	10,032
Investment securities at amortized cost	86,876	-	-	86,876
Loans and receivables - net	-	-	401,745	401,745
Other resources	-	-	985	985
	P 191,137	**P -**	**P 402,730**	**P 593,867**
Financial Liabilities:				
Deposit liabilities	P -	P -	P 424,437	P 424,437
Bills payable	-	-	56,001	56,001
Bonds payable	-	55,281	-	55,281
Subordinated debt	-	9,955	-	9,955
Accrued interest and other expenses	-	-	4,984	4,984
Other liabilities	-	-	11,944	11,944
	P -	**P 65,236**	**P 497,366**	**P 562,602**
2017:				
Financial Assets:				
Cash and other cash items	P 14,693	P -	P -	P 14,693
Due from BSP	58,801	-	-	58,801
Due from other banks	19,818	-	-	19,818
Loans arising from reverse repurchase agreement	9,831	-	-	9,831
Investment securities at amortized cost	56,396	-	-	56,396
Loans and receivables - net	-	-	358,354	358,354
Other resources	-	-	699	699
	P 159,539	P -	P 359,053	P 518,592
Financial Liabilities:				
Deposit liabilities	P -	P -	P 388,528	P 388,528
Bills payable	-	-	43,967	43,967
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	10,299	-	10,299
Accrued interest and other expenses	-	-	3,929	3,929
Other liabilities	-	-	10,516	10,516
	P -	P 39,764	P 446,940	P 486,704

	Parent Company			
	Level 1	Level 2	Level 3	Total
2018:				
Financial Assets:				
Cash and other cash items	P 12,225	P -	P -	P 12,225
Due from BSP	39,847	-	-	39,847
Due from other banks	19,420	-	-	19,420
Loans arising from reverse repurchase agreement	4,000	-	-	4,000
Investment securities at amortized cost	76,228	-	-	76,228
Loans and receivables - net	-	-	299,846	299,846
Other resources	-	-	871	871
	P 151,720	**P -**	**P 300,717**	**P 452,437**
Financial Liabilities:				
Deposit liabilities	P -	P -	P 303,448	P 303,448
Bills payable	-	-	48,759	48,759
Bonds payable	-	55,281	-	55,281
Subordinated debt	-	9,955	-	9,955
Accrued interest and other expenses	-	-	3,765	3,765
Other liabilities	-	-	8,042	8,042
	P -	**P 65,236**	**P 364,014**	**P 429,250**
2017:				
Financial Assets:				
Cash and other cash items	P 10,415	P -	P -	P 10,415
Due from BSP	47,186	-	-	47,186
Due from other banks	18,368	-	-	18,368
Loans arising from reverse repurchase agreement	7,435	-	-	7,435
Investment securities at amortized cost	47,784	-	-	47,784
Loans and receivables - net	-	-	266,382	266,382
Other resources	-	-	571	571
	P 131,188	P -	P 266,953	P 398,141
Financial Liabilities:				
Deposit liabilities	P -	P -	P 288,783	P 288,783
Bills payable	-	-	36,600	36,600
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	10,299	-	10,299
Accrued interest and other expenses	-	-	3,009	3,009
Other liabilities	-	-	6,668	6,668
	P -	P 39,764	P 335,060	P 374,824

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreements

Due from BSP pertains to deposits made to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreements pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Investment Securities at Amortized Cost

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg in 2018 and as published in PDEx in 2017 as discussed more fully in Note 7.2(a).

(c) Deposits Liabilities and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Level 2 fair value of bonds payable and subordinated debt is determined based on the average of ask and bid prices as appearing on Bloomberg. For bills payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P5,298 and P4,940 in the Group's financial statements and P6,267 and P6,161 in the Parent Company's financial statements as of December 31, 2018 and 2017, respectively (see Note 14.3). The fair value hierarchy of these properties as of December 31, 2018 and 2017 is categorized as Level 3.

The fair values of the Group's and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent appraiser. Under this approach, when sales prices and/or actual sales transaction 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 and recent prices of the reference properties were adjusted for differences in key attributes such as property size, location and zoning, and accessibility, or any physical or legal restrictions on the use of the property, the fair value will be categorized as Level 3. The most significant input into this valuation approach is the price per square feet, hence, the higher the price per square feet, the higher the fair value.

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

There has been no change in the valuation techniques for investment properties in both years.

8. SEGMENT INFORMATION

8.1 Business Segments

The Group's operating businesses are managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products. This segment includes portfolios of RSB, Rizal Microbank, and RBSC.

(b) *Corporate* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers. This segment includes portfolio of RLFC.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of other subsidiaries except for RSB, Rizal Microbank, and RBSC which are presented as part of Retail, and RLFC which is presented under Corporate.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2018 and 2017.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2018, 2017 and 2016 follow:

	Retail	Corporate	Treasury	Others	Total
2018:					
Revenues					
From external customers					
Interest income	P 24,744	P 22,873	P 4,711	P 126	P 52,454
Interest expense	(7,788)	(13,802)	(3,178)	(12)	(24,780)
Net interest income	16,956	9,071	1,533	114	27,674
Non-interest income	4,249	2,625	1,228	837	8,939
	21,205	11,696	2,761	951	36,613
Intersegment revenues					
Interest income	-	3,165	-	6	3,171
Non-interest income	531	-	-	-	531
	531	3,165	-	6	3,702
Total net revenues	21,736	14,861	2,761	957	40,315
Expenses					
Operating expenses excluding depreciation and amortization	13,467	2,793	625	279	17,164
Depreciation and amortization	762	416	14	4	1,196
	14,229	3,209	639	283	18,360
Segment operating income	**P 7,507**	**P 11,652**	**P 2,122**	**P 674**	**P 21,955**

	Retail	Corporate	Treasury	Others	Total
Total resources and liabilities					
Total resources	P 149,800	P 272,160	P 109,199	P 5,957	P 537,116
Total liabilities	P 418,787	P 147,709	P 14,703	P 1,685	P 582,884
2017:					
Revenues					
From external customers					
Interest income	P 19,692	P 15,162	P 3,398	P 44	P 38,296
Interest expense	(4,262)	(9,464)	(2,161)	(3)	(15,890)
Net interest income	15,430	5,698	1,237	41	22,406
Non-interest income	3,962	2,660	1,738	1,388	9,748
	19,392	8,358	2,975	1,429	32,154
Intersegment revenues					
Interest income	-	2,892	-	7	2,899
Non-interest income	499	-	-	-	499
	499	2,892	-	7	3,398
Total net revenues	19,891	11,250	2,975	1,436	35,552
Expenses					
Operating expenses excluding depreciation and amortization	12,233	2,302	551	284	15,370
Depreciation and amortization	828	425	13	5	1,271
	13,061	2,727	564	289	16,641
Segment operating income	P 6,830	P 8,523	P 2,411	P 1,147	P 18,911
Total resources and liabilities					
Total resources	P 136,979	P 266,519	P 83,728	P 5,355	P 492,581
Total liabilities	P 402,961	P 190,891	P 20,692	P 713	P 615,257
2016:					
Revenues					
From external customers					
Interest income	P 17,075	P 13,416	P 16,537	P 34	P 47,062
Interest expense	(3,199)	(7,799)	(5,976)	(3)	(16,977)
Net interest income	13,876	5,617	10,561	31	30,085
Non-interest income	3,636	1,748	1,960	1,200	8,544
	17,512	7,365	12,521	1,231	38,629
Intersegment revenues					
Interest income	-	2,235	-	4	2,239
Non-interest income	460	-	-		460
	- 460	2,235	-	4	2,699
Total net revenues	17,972	9,600	12,521	1,235	41,328

	Retail	Corporate	Treasury	Others	Total
Expenses					
Operating expenses excluding depreciation and amortization	P 11,264	P 1,965	P 546	P 749	P 14,524
Depreciation and amortization	800	359	9	7	1,175
	12,064	2,324	555	756	15,699
Segment operating income	P 5,908	P 7,276	P 11,966	P 479	P 25,629
Total resources and liabilities					
Total resources	P 122,900	P 235,070	P 98,302	P 5,048	P 461,320
Total liabilities	P 363,581	P 162,314	P 28,297	P 709	P 544,901

8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2018	2017	2016
Revenue			
Total segment revenues	**P 40,315**	P 35,552	P 41,328
Unallocated income	**(9,928)**	(6,844)	(15,620)
Elimination of intersegment revenues	**(3,893)**	(3,587)	(2,886)
Net revenues as reported in profit or loss	**P 26,494**	P 25,121	P 22,822
Profit or loss			
Total segment operating income	**P 21,955**	P 18,911	P 25,629
Unallocated profit	**(13,932)**	(11,203)	(19,186)
Elimination of intersegment profit	**(3,702)**	(3,398)	(2,700)
Group net profit as reported in profit or loss	**P 4,321**	P 4,310	P 3,743
Resources			
Total segment resources	**P 537,116**	P 492,581	P 461,320
Unallocated assets	**110,252**	63,355	62,310
Elimination of intersegment assets	**(2,773)**	(2,061)	(2,417)
Total resources	**P 644,595**	P 553,875	P 521,213
Liabilities			
Total segment liabilities	**P 582,884**	P 615,257	P 554,901
Unallocated liabilities	**(16,686)**	(126,235)	(93,423)
Elimination of intersegment liabilities	**(2,773)**	(2,061)	(2,418)
Total liabilities	**P 563,425**	P 486,961	P 459,060

8.4 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2018, 2017 and 2016 follow:

	Philippines	Asia and Europe	Total
2018:			
Statement of profit or loss			
Total income	P 36,930	P 9	P 36,939
Total expenses	32,580	38	32,618
Net profit (loss)	**P 4,350**	**(P 29)**	**P 4,321**
Statement of financial position			
Total resources	**P 644,451**	**P 144**	**P 644,595**
Total liabilities	**P 563,355**	**P 70**	**P 563,425**
Other segment information			
Depreciation and amortization	**P 1,821**	**P -**	**P 1,821**

2017:				
Statement of profit or loss				
Total income	P 32,212	P -	P 6	P 32,218
Total expenses	27,877	-	31	27,908
Net profit (loss)	P 4,335	P -	(P 25)	P 4,310
Statement of financial position				
Total resources	P 553,731	P 1	P 143	P 553,875
Total liabilities	P 486,889	P 1	P 71	P 486,961
Other segment information – Depreciation and amortization	P 1,930	P -	P -	P 1,930
2016:				
Statement of profit or loss				
Total income	P 30,225	P -	P 28	P 30,253
Total expenses	26,306	2	75	26,383
Net profit (loss)	P 3,919	(P 2)	(P 47)	P 3,870
Statement of financial position				
Total resources	P 521,018	P 1	P 174	P 521,193
Total liabilities	P 458,967	P -	P 93	P 459,060
Other segment information – Depreciation and amortization	P 1,766	P -	P -	P 1,766

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Cash and other cash items	**P 17,392**	P 14,693	**P 12,225**	P 10,415
Due from BSP	**56,495**	58,801	**39,847**	47,186
Due from other banks	**20,342**	19,818	**19,420**	18,368
Loans arising from reverse repurchase agreement	**10,032**	9,831	**4,000**	7,435
Interbank loans receivables (see Note 11)	**9,522**	38	**9,522**	38
	P 113,783	P 103,181	**P 85,014**	P 83,442

Cash consists primarily of funds in the form of Philippine currency notes and coins, and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Note 17), to serve as clearing account for interbank claims and to comply with existing trust regulations. Due from BSP also includes Overnight Deposit and Term Deposit Accounts. The balance of Overnight Deposit amounted to P8 and P2,017 for the Group as of December 31, 2018 and 2017, respectively, while the Parent Company has no such deposits at the end of both years. In addition, Term Deposit Accounts amounted to P5,000 and P200 for the Group, and nil and P200 for the Parent Company as of December 31, 2018 and 2017, respectively.

Overnight deposit bears interest of 3.0% in 2018, and 2.5% in 2017 and 2016, while term deposit account earns interest of 4.2%, 3.4%, and 3.3% in 2018, 2017 and 2016, respectively.

The balance of Due from Other Banks account represents regular deposits with the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign banks	**P 18,843**	P 17,724	**P 18,708**	P 17,284
Local banks	**1,499**	2,094	**712**	1,084
	P 20,342	P 19,818	**P 19,420**	P 18,368

The breakdown of Due from Other Banks account by currency is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign currencies	**P 19,470**	P 17,922	**P 19,009**	P 17,839
Philippine peso	**872**	1,896	**411**	529
	P 20,342	P 19,818	**P 19,420**	P 18,368

Interest rates per annum on these deposits in other banks range from 0.00% to 2.50% in 2018, from 0.00% to 1.20% in 2017, and from 0.35% to 1.00% in 2016.

The Group has loans from BSP as of December 31, 2018 and 2017 arising from overnight lending from excess liquidity which earn effective interest of 3.00% to 4.50% in 2018 and 3.50% in 2017. These loans normally mature within 30 days. Interest income earned from these financial assets is presented under Interest Income account in the statements of profit or loss.

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Financial assets at FVPL	**P**	**7,570**	P	7,591	**P**	**6,690**	P	6,553
Financial assets at FVOCI		**21,987**		5,363		**15,697**		3,439
Investment securities at amortized cost		**88,892**		59,978		**78,595**		48,141
	P	**118,449**	P	72,932	**P**	**100,982**	P	58,133

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Government securities	**P**	**3,511**	P	4,386	**P**	**3,419**	P	4,289
Corporate debt securities		**1,660**		462		**1,547**		455
Equity securities		**675**		1,624		**-**		690
Derivative financial assets		**1,724**		1,119		**1,724**		1,119
	P	**7,570**	P	7,591	**P**	**6,690**	P	6,553

The carrying amounts of financial assets at FVPL are classified as follows:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Held-for-trading	**P**	**5,171**	P	4,848	**P**	**4,966**	P	4,744
Designated as at FVPL		**675**		1,624		**-**		690
Derivative financial assets		**1,724**		1,119		**1,724**		1,119
	P	**7,570**	P	7,591	**P**	**6,690**	P	6,553

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVPL. There were no dividend income earned on these equity securities in 2018, 2017 and 2016.

Upon adoption of PFRS 9 at January 1, 2018, certain equity securities with carrying amount of P845 and debt securities with carrying amount of P105 were reclassified by the Group from financial assets at FVPL to FVOCI category. These include equity securities amounting to P543 reclassified by the Parent Company [(see Note 2.2(a)] and Note 10.2. Also, certain debt securities of the Parent Company with carrying amount of P51 were reclassified from FVPL to amortized cost [(see Note 2.2(a)] and Note 10.3.

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2018	2017	2016
Peso denominated	**3.25% - 8.13%**	2.13% - 8.75%	1.63% - 12.13%
Foreign currency denominated	**2.05% - 11.63%**	2.95% - 10.63%	1.30% - 11.63%

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group's and Parent Company's financial statements are shown below.

	Notional Amount	**Fair Values**	
		Assets	**Liabilities**
2018:			
Currency swaps and forwards	P 67,420	P 1,376	P 567
Interest rate swaps and futures	35,378	309	305
Debt warrants	5,531	17	-
Options	1,240	3	22
Credit default swap	946	19	-
	P 110,515	**P 1,724**	**P 894**

	Notional Amount	**Fair Values**	
		Assets	**Liabilities**
2017:			
Currency swaps and forwards	P 51,060	P 911	P 402
Interest rate swaps and futures	26,999	174	80
Debt warrants	6,250	29	-
Options	3,718	5	1
Credit default swap	25	-	-
	P 88,052	P 1,119	P 483

Derivative liabilities amounting to P894 and P483 as of December 31, 2018 and 2017, respectively, are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group's and Parent Company's financial assets at FVPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31, 2018 and 2017 consist of:

	Group		Parent Company	
	2018	2017	**2018**	2017
Quoted equity securities	**P 2,472**	P 3,653	**P 1,730**	P 1,958
Unquoted equity securities	**3,989**	1,710	**1,946**	1,481
Government debt securities	**15,138**	-	**12,021**	-
Corporate debt securities	**388**	-	**-**	-
	P 21,987	P 5,363	**P 15,697**	P 3,439

The Group has designated the above local equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVPL. Unquoted equity securities include golf club shares and investments in non-marketable equity securities of private companies.

The Group and the Parent Company made reclassifications of certain equity and debt securities from financial assets at FVPL to FVOCI category at January 1, 2018 [(see Note 2.2(a)] and Note 10.1. In addition, debt securities with fair value of P310 were reclassified from investment securities at amortized cost to FVOCI [(see Note 2.2(a)] and Note 10.3.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2018 and 2017 are unquoted equity securities with fair value of P3,989 and P1,710, respectively, determined using the net asset value, dividend discounted model, discounted cash flow method, or a market-based approach (price-to-book value method), hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2). These unquoted equity securities include investments of the Parent Company with fair value of P1,946 and P1,481 as of December 31, 2018 and 2017, respectively.

The fair value changes of equity securities classified as at FVOCI and held by the Group as of December 31, 2017 are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently to profit or loss (see Note 10.5). Effective January 1, 2018, the Group acquires and holds corporate debt securities under its financial assets at FVOCI category. Similar with equity securities, fair value gains or losses arising from these securities are recognized in other comprehensive income. However, gains or losses are reclassified to profit or loss upon disposal.

As a result of the Group's disposal of certain equity securities classified as at FVOCI, the related fair value gain of P4 in 2017 and P3 in 2016 recognized in other comprehensive income prior to the year of disposal was transferred from Revaluation Reserves to Surplus account during those years. There were no disposal of equity securities classified as at FVOCI in 2018.

In 2018, 2017 and 2016, dividends on these equity securities were recognized amounting to P189, P234 and P449 by the Group and, P187, P196 and P307 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2018 and 2017 consist of:

	Group		Parent Company	
	2018	2017	**2018**	2017
Government securities	**P 66,084**	P 39,044	**P 57,384**	P 29,379
Corporate debt securities	**22,943**	21,024	**21,237**	18,762
	89,027	60,068	**78,621**	48,141
Allowance for impairment	**(135)**	(90)	**(26)**	-
	P 88,892	P 59,978	**P 78,595**	P 48,141

The breakdown of these investment securities at amortized cost by currency is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Philippine peso	**P 15,668**	P 9,934	**P 9,634**	P 2,634
Foreign currencies	**73,224**	50,044	**68,961**	45,507
	P 88,892	P 59,978	**P 78,595**	P 48,141

Interest rates per annum on government securities and corporate debt securities range from 3.63% to 8.00% in 2018, 2.13% to 8.60% in 2017 and 2.13% to 8.44% in 2016 for peso denominated securities, and 1.63% to 10.63% in 2018, 1.63% to 10.63% in 2017 and 1.40% to 10.63% in 2016 for foreign currency-denominated securities.

Upon adoption of PFRS 9 at January 1, 2018, certain debt securities of the Parent Company with carrying amount of P51 were reclassified from financial assets at FVPL to amortized cost [(see Note 2.2(a)] and Note 10.1. In addition, debt securities with fair value of P310 were reclassified from investment securities at amortized cost to FVOCI [(see Note 2.2(a)] and Note 10.2.

In December 2018, the Parent Company disposed of certain US dollar-denominated bonds under its HTC portfolio with aggregate carrying amount of P3,113, resulting in net gains amounting to P69. The disposal was made in order to maintain adequate liquidity buffer for the expected cash outflows for loan drawdowns. In 2017, the Parent Company also disposed from its HTC portfolio certain peso and US dollar-denominated bonds with aggregate carrying amount of P22,279 which resulted in net gains of P684. The disposal was made to ensure the Parent Company's continuing regulatory compliance with the required minimum CET 1 ratio.

Management had assessed that the disposals of the investment securities under the HTC portfolio during those periods are consistent with the Group's HTC business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Group's business model in managing financial assets manual and the requirements of PFRS 9 and BSP Circular 708.

The above disposals of investment securities were approved by the Executive Committee of the Parent Company in compliance with the documentation requirements of the BSP.

The Group and the Parent Company recognized ECL on investment securities at amortized cost amounting to P24 and P15, respectively, in 2018 (see Note 16).

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

As of December 31, 2018 and 2017, investment securities of both the Group and the Parent Company with an aggregate amortized cost of P25,438 and P7,437, respectively, were pledged as collaterals for bills payable under repurchase agreements (see Note 18).

10.4 Interest Income from Trading and Investment Securities

Interest income from trading and investment securities recognized by the Group and Parent Company in 2018, 2017 and 2016 are shown below.

	Group		
	2018	2017	2016
Debt securities at FVPL	**P 441**	P 293	P 938
Debt securities at FVOCI	**136**	-	-
Debt securities at amortized cost	**2,826**	2,137	2,331
	P 3,403	P 2,430	P 3,269

	Parent Company		
	2018	2017	2016
Debt securities at FVPL	**P 338**	P 203	P 931
Debt securities at FVOCI	**113**	-	-
Debt securities at amortized cost	**2,359**	1,752	1,996
	P 2,810	P 1,955	P 2,927

10.5 Trading and Securities Gains (Losses)

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2018, 2017, and 2016 as follows:

	Group		
	2018	2017	2016
Profit or loss:			
Financial assets at FVPL	**(P 117)**	P 195	P 267
Debt securities at FVOCI	**48**	-	-
Investment securities at amortized cost	**69**	705	1,352
	P -	P 900	P 1,619
Other comprehensive income (loss):			
Equity securities at FVOCI	**(P 1,018)**	(P 156)	P 1,442
Debt securities at FVOCI	**149**	-	-
	(P 869)	(P 156)	P 1,442

	Parent Company 2018	2017	2016
Profit or loss:			
Financial assets at FVPL	**(P 134)**	(P 20)	P 136
Debt securities at FVOCI	**48**		
Investment securities at amortized cost	**69**	684	1,527
	(P 17)	P 664	P 1,663
Other comprehensive income (loss):			
Equity securities at FVOCI	**(P 478)**	(P 269)	P 1,395
Debt securities at FVOCI	**149**	-	-
	(P 329)	(P 269)	P 1,395

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1):

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Receivables from customers:				
Loans and discounts	**P 340,011**	P 319,099	**P 244,420**	P 233,549
Credit card receivables	**21,550**	16,405	**21,550**	16,405
Customers' liabilities on acceptances, import bills and trust receipts	**21,075**	12,404	**21,075**	12,404
Bills purchased	**3,112**	2,612	**3,055**	2,605
Lease contract receivables	**3,403**	2,893	**-**	-
Receivables financed	**587**	249	**-**	-
	389,738	353,662	**290,100**	264,963
Unearned discount	**(665)**	(817)	**(160)**	(332)
	389,073	352,845	**289,940**	264,631
Other receivables:				
Interbank loans receivables (see Note 9)	**9,522**	38	**9,522**	38
Accrued interest receivables	**4,498**	3,094	**3,537**	2,232
Accounts receivables [see Notes 15.3 and 28.5 (a) and (b)]	**2,452**	2,641	**1,565**	2,206
UDSCL	**1,963**	1,939	**1,162**	1,177
Sales contract receivables	**1,083**	1,679	**59**	449
	19,518	9,391	**15,845**	6,102
	408,591	362,236	**305,785**	270,733
Allowance for impairment (see Note 16)	**(10,291)**	(7,993)	**(7,041)**	(4,942)
	P 398,300	P 354,243	**P 298,744**	P 265,791

Receivables from customers' portfolio earn average annual interest or range of interest as follows:

	2018	2017	2016
Loans and discounts:			
Philippine peso	**5.79%**	5.00%	5.08%
Foreign currencies	**4.53%**	3.63%	3.50%
Credit card receivables	**16.00% - 24.00%**	17.00% - 27.00%	19.00% - 29.00%
Lease contract receivables	**8.00% - 19.00%**	8.00% - 20.00%	8.00% - 20.00%
Receivables financed	**8.00% - 14.00%**	11.00% - 12.50%	10.00% - 12.00%

Included in UDSCL as of December 31, 2018 and 2017 is a 10-year note from Philippine Asset Growth One, Inc. (PAGO) with a face amount of P731, which is part of the consideration received in relation to the Parent Company's disposal in February 2013 of its non-performing assets (NPAs), consisting of non-performing loans (NPLs) with a carrying amount of P507 and non-performing investment properties with a carrying amount of P1,236. This note receivable carries a variable interest rate of 1.0% per annum during the first five years, 7.0% per annum in the sixth to seventh year, and 7.5% per annum in the last three years. This note receivable was initially recognized in 2013 at fair value resulting in the recognition of day-one loss of P181 which is included as part of allowance for ECL. This note receivable with carrying amount of P342 as of December 31, 2017 has been provided with full allowance for ECL as part of the Parent Company's transition adjustment to increase its allowance for ECL on specific loans upon adoption of the ECL model at January 1, 2018.

Also included in UDSCL is RSB's 10-year note with carrying amount of P801 and P761 as of December 31, 2018 and 2017, respectively, and bears 6.44% interest per annum. This pertains to the agreement entered into in June 2017 with a third party for the sale of various foreclosed real properties with book value of P1,127, for a total consideration of P1,385; of which P396 and P989 (with present value of P742 on date of sale) were in the form of cash and note receivable, respectively. Accordingly, the Group recognized a gain on sale amounting to P11 and is presented as part of Gains on assets sold under Miscellaneous income in the 2017 statement of profit or loss (see Notes 15.3 and 25.1).

Also included in Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2018 and 2017, the outstanding balance amounted to P182 and P192, respectively. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 28). Management has assessed that this receivable is fully recoverable.

11.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Real estate, renting and other related activities	**P**	**85,759**	P	81,927	**P**	**53,100**	P	52,669
Electricity, gas and water		**74,686**		64,794		**74,379**		64,453
Consumer		**64,085**		54,196		**23,282**		18,055
Wholesale and retail trade		**45,153**		40,500		**39,669**		35,692
Manufacturing (various industries)		**44,600**		35,034		**43,355**		33,504
Financial intermediaries		**24,262**		21,521		**22,207**		19,534
Transportation and communication		**22,869**		22,918		**16,077**		17,162
Other community, social and personal activities		**10,545**		14,799		**5,956**		10,755
Agriculture, fishing and forestry		**4,559**		4,928		**4,003**		4,479
Hotels and restaurants		**3,981**		4,133		**3,937**		4,133
Mining and quarrying		**1,456**		1,922		**1,285**		1,779
Others		**7,118**		6,173		**2,690**		2,416
	P	**389,073**	P	352,845	**P**	**289,940**	P	264,631

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group and the Parent Company are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Secured:								
Real estate mortgage	**P**	**113,299**	P	86,193	**P**	**63,582**	P	42,326
Chattel mortgage		**44,271**		37,975		**1,699**		623
Hold-out deposits		**9,814**		15,799		**9,470**		14,380
Other securities		**18,733**		26,718		**15,149**		25,375
		186,117		166,685		**89,900**		82,704
Unsecured		**202,956**		186,160		**200,040**		181,927
	P	**389,073**	P	352,845	**P**	**289,940**	P	264,631

The maturity profile of the receivables from customers' portfolio follows:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Due within one year	**P**	**79,185**	P	92,550	**P**	**75,279**	P	71,992
Due beyond one year		**309,888**		260,295		**214,661**		192,639
	P	**389,073**	P	352,845	**P**	**289,940**	P	264,631

11.2 Non-performing Loans and Allowance for Credit Loss

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31, 2018 and 2017 are presented below, net of allowance for impairment in compliance with the BSP Circular No. 772, *Amendments to Regulations on Non-performing Loans.*

	Group		Parent Company	
	2018	2017	**2018**	2017
Gross NPLs	**P 9,173**	P 7,907	**P 3,779**	P 2,851
Allowance for impairment	**(4,857)**	(3,416)	**(2,274)**	(1,394)
	P 4,316	P 4,491	**P 1,505**	P 1,457

Based on BSP regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan receivable shall be considered as non-performing when the total amount of arrearages reaches 10% of the total loan receivable balance.

Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

A reconciliation of the allowance for impairment on loans and receivables at the beginning and end of 2018 and 2017 is shown below (see Note 16).

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 7,993**	P 7,411	**P 4,942**	P 4,792
Effect of adoption of ECL model [see Note 2.2(a)]	**1,680**	-	**1,959**	-
Impairment losses during the year	**1,879**	2,076	**1,294**	1,086
Accounts written off and others	**(1,261)**	(1,494)	**(1,154)**	(936)
Balance at end of year	**P 10,291**	P 7,993	**P 7,041**	P 4,942

12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

	Notes	Group 2018	Group 2017
Acquisition costs of associates:			
HCPI		**P 91**	P 91
LIPC		**57**	57
YCS		**4**	4
		152	152
Accumulated equity in net earnings:			
Balance at beginning of year		**265**	231
Share in net earnings for the year		**14**	92
Share in actuarial gains on defined benefit plan	23.4	**6**	4
Cash dividends	28	**(2)**	(62)
Others		**(12)**	-
Balance at end of year		**271**	265
Carrying amount		**P 423**	P 417

	Parent Company 2018	Parent Company 2017
Acquisition costs of subsidiaries:		
RSB	**P 3,190**	P 3,190
RCBC Capital	**2,231**	2,231
Rizal Microbank	**1,242**	1,242
RCBC LFC	**1,187**	1,187
RCBC JPL	**375**	375
RCBC Forex	**150**	150
RCBC Telemoney	**72**	72
RCBC IFL	**58**	58
RCBC North America	**-**	134
Total acquisition costs *(carried forward)*	**P 8,505**	P 8,639

	Notes	Parent Company 2018	Parent Company 2017
Total acquisition costs *(carried forward)*		**P 8,505**	P 8,639
Accumulated equity in net earnings:			
Balance at beginning of year		**9,562**	7,817
Share in the effect of adoption of PFRS 9	2.2	**143**	-
Share in net earnings for the year		**1,290**	1,960
Share in actuarial gains on defined benefit plan	23.4	**115**	19
Share in fair value gains (losses) on financial assets at FVOCI	23.4	**(540)**	113
Translation adjustment on foreign operations	23.4	**-**	(1)
Cash dividends	28	**-**	(315)
Others		**123**	(31)
Balance at end of year		**10,693**	9,562
		19,198	18,201
Acquisition costs of associates:			
NPHI		**388**	388
HCPI		**91**	91
LIPC		**57**	57
YCS		**4**	4
		540	540
Accumulated equity in net earnings:			
Balance at beginning of year		**277**	182
Share in net earnings for the year		**9**	150
Share in actuarial gains on defined benefit plan	23.4	**6**	4
Cash dividends	28	**(102)**	(59)
Balance at end of year		**190**	277
		730	817
Carrying amount		**P 19,928**	P 19,018

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company received dividends from its subsidiaries and associates amounting to nil and P102, respectively, in 2018, P315 and P59, respectively, in 2017, and P232 and P110, respectively, in 2016.

12.1 Information About Investments in Subsidiaries

In February 2018, RCBC North America was dissolved which resulted in the reclassification of the cumulative translation adjustment to profit or loss amounting to P32 (see Note 1.2).

In August 2018, the BOD of the Parent Company approved the additional capital infusion to RCBC LFC amounting to P800, which was paid to the latter in November 2018 after RCBC LFC's BOD approved the increase in its authorized capital stock in its meeting held in October 2018. As the application for the increase in authorized capital stock is not yet filed by RCBC LFC to the SEC as of December 31, 2018, the P800 deposit for future stock subscription is recognized and presented as part of Other Resources account in the 2018 statement of financial position of the Parent Company (see Note 15).

On February 23, 2015, the Parent Company's BOD approved the subscription to P500 worth of shares of stock of RCBC LFC. In 2016, RCBC LFC filed its application with the SEC for increase in authorized capital stock after it has secured the certificate of authority to amend the articles of incorporation from the BSP. This application was approved by the SEC on April 24, 2018 which resulted in the issuance of shares to the Parent Company, hence, increase in the latter's ownership interest (see Note 1.2).

12.2 Information About Investments in Associates

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The table below presents the summary of the financial information of the Group's significant associates as of and for the years ended December 31:

	Resources	Liabilities	Revenues	Net Profit (Loss)
2018:				
HCPI	**P 6,910**	**P 3,717**	**P 27,664**	**P 35**
LIPCO	**993**	**5,236**	**23**	**(482)**
2017:				
HCPI	P 6,110	P 2,965	P 25,215	P 589
LIPCO	982	4,743	27	(341)

13. 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 2018 and 2017 are shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2018					
Cost	P 1,270	P 3,400	P 11,032	P 1,102	P 16,804
Accumulated depreciation and amortization	-	(1,400)	(6,989)	-	(8,389)
Net carrying amount	**P 1,270**	**P 2,000**	**P 4,043**	**P 1,102**	**P 8,415**
December 31, 2017					
Cost	P 1,283	P 3,368	P 9,684	P 1,167	P 15,502
Accumulated depreciation and amortization	-	(1,318)	(5,238)	-	(6,556)
Net carrying amount	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946
January 1, 2017					
Cost	P 1,289	P 3,315	P 9,858	P 1,100	P 15,562
Accumulated depreciation and amortization	-	(1,226)	(5,460)	-	(6,686)
Net carrying amount	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2018					
Cost	P 771	P 2,421	P 6,447	P 867	P 10,506
Accumulated depreciation and amortization	-	(1,078)	(4,436)	-	(5,514)
Net carrying amount	**P 771**	**P 1,343**	**P 2,011**	**P 867**	**P 4,992**
December 31, 2017					
Cost	P 771	P 2,419	P 6,196	P 890	P 10,276
Accumulated depreciation and amortization	-	(1,000)	(4,079)	-	(5,079)
Net carrying amount	P 771	P 1,419	P 2,117	P 890	P 5,197
January 1, 2017					
Cost	P 777	P 2,381	P 5,882	P 815	P 9,855
Accumulated depreciation and amortization	-	(932)	(3,731)	-	(4,663)
Net carrying amount	P 777	P 1,449	P 2,151	P 815	P 5,192

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 is shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946
Additions	-	47	877	290	1,214
Disposals	(13)	(12)	(275)	(31)	(331)
Reclassifications	-	2	(131)	129	-
Depreciation and amortization charges for the year	-	(87)	(874)	(453)	(1,414)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 1,270**	**P 2,000**	**P 4,043**	**P 1,102**	**P 8,415**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876
Additions	-	47	779	695	1,521
Disposals	(6)	(8)	(81)	(24)	(119)
Depreciation and amortization charges for the year	-	(78)	(650)	(604)	(1,332)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 771	P 1,419	P 2,117	P 890	P 5,197
Additions	-	34	606	196	836
Disposals	-	(4)	(191)	(29)	(224)
Depreciation and amortization charges for the year	-	(106)	(521)	(190)	(817)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 771**	**P 1,343**	**P 2,011**	**P 867**	**P 4,992**

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 777	P 1,449	P 2,151	P 815	P 5,192
Additions	-	40	576	283	899
Disposals	(6)	(2)	(75)	(18)	(101)
Depreciation and amortization charges for the year	-	(68)	(535)	(190)	(793)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 771	P 1,419	P 2,117	P 890	P 5,197

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2018 and 2017, the Parent Company and its bank subsidiaries have satisfactorily complied with this BSP requirement.

The cost of the Group's and the Parent Company's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P5,136 and P4,357, respectively, as of December 31, 2018 and P3,789 and P3,638, respectively, as of December 31, 2017.

14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2018 and 2017 are shown below.

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2018						
Cost	P 1,566	P 2,659	P 4,225	P 644	P 2,544	P 3,188
Accumulated depreciation	-	(502)	(502)	-	(260)	(260)
Accumulated impairment (see Note 16)	(92)	-	(92)	-	(6)	(6)
Net carrying amount	**P 1,474**	**P 2,157**	**P 3,631**	**P 644**	**P 2,278**	**P 2,922**
December 31, 2017						
Cost	P 2,472	P 1,534	P 4,006	P 995	P 2,005	P 3,000
Accumulated depreciation	-	(549)	(549)	-	(215)	(215)
Accumulated impairment (see Note 16)	(58)	-	(58)	-	-	-
Net carrying amount	P 2,414	P 985	P 3,399	P 995	P 1,790	P 2,785

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
January 1, 2017						
Cost	P 1,389	P 2,492	P 3,881	P 1,000	P 2,019	P 3,019
Accumulated depreciation	-	(618)	(618)	-	(203)	(203)
Accumulated impairment (see Note 16)	(34)	-	(34)	-	-	-
Net carrying amount	P 1,355	P 1,874	P 3,229	P 1,000	P 1,816	P 2,816

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at January 1, net of accumulated depreciation and impairment	**P 3,399**	P 3,229	**P 2,785**	P 2,816
Additions	**672**	2,360	**202**	19
Disposals	**(382)**	(1,822)	**(17)**	(7)
Reclassification	**39**	-	**-**	-
Depreciation charges for the year	**(97)**	(289)	**(48)**	(43)
Impairment losses	**-**	(79)	**-**	-
Balance at December 31, net of accumulated depreciation and impairment	**P 3,631**	P 3,399	**P 2,922**	P 2,785

As of December 31, 2018 and 2017, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling P672 and P202, respectively, in 2018, and P2,360 and P19, respectively, in 2017 in settlement of certain loan accounts.

In September 2014, the Parent Company sold to a third party buyer a certain non-performing investment properties consisting of land and building with a total carrying amount of P774 for a total consideration of P740, consisting of P35 cash as down payment, P40 accounts receivable and P665 sales contract receivable with no interest and payable in staggered amount for a period of four years (see Note 11). The sales contract receivable was initially recognized at its fair value resulting in the recognition of a day-one loss amounting to P5 which is included as part of allowance for impairment. These receivables with outstanding balance of P365 as of December 31, 2017 were fully collected in 2018.

The total gain recognized by the Group and the Parent Company from disposals of investment properties both amounted to P26 in 2018, P159 and P33, respectively, in 2017, and loss of P421 and P12, respectively, in 2016, which is presented as part of Gains on assets sold – net under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P414 both in 2018, P416 and P400, respectively, in 2017, and P414 and P399, respectively, in 2016 and are presented as part of Rentals under Miscellaneous Income account in the statement of profit or loss [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P54 and P32, respectively, in 2018, P41 and P15, respectively, in 2017, P62 and P54, respectively, in 2016.

14.3 Valuation and Measurement of Investment Properties

The fair value of investment properties as of December 31, 2018 and 2017, based on the available appraisal reports, amounted to P5,298 and P4,940, respectively, for the Group; and, P6,267 and P6,161, respectively, for the Parent Company (see Note 7.4).

15. OTHER RESOURCES

Other resources consist of the following:

		Group		Parent Company	
	Notes	**2018**	2017	**2018**	2017
Creditable withholding taxes		**P 2,362**	P 2,110	**P 2,197**	P 1,976
Branch licenses	15.1	**1,000**	1,000	**1,000**	1,000
Software	15.2	**945**	977	**786**	874
Assets held-for-sale and disposal group	15.3	**931**	1,594	**268**	862
Refundable and other deposits		**736**	491	**646**	392
Prepaid expenses	15.4	**717**	538	**464**	274
Goodwill	15.5	**426**	426	**-**	-
Unused stationery and supplies		**298**	288	**251**	229
Returned checks and other cash items		**171**	87	**158**	69
Deferred charges		**121**	132	**118**	129
Foreign currency notes		**59**	98	**48**	87
Margin deposits	15.6	**19**	23	**19**	23
Deposit for future stock subscription	12.1	**-**	-	**800**	-
Inter-office float items		**-**	81	**13**	107
Miscellaneous	15.7	**1,465**	1,358	**131**	286
		9,250	9,203	**6,899**	6,308
Allowance for impairment	15.5, 16	**(228)**	(191)	**-**	(2)
		P 9,022	P 9,012	**P 6,899**	P 6,306

The expected recovery of the other resources follows:

	Group				Parent Company			
	2018		2017		**2018**		2017	
Within one year	**P**	**6,404**	P	6,334	**P**	**4,731**	P	4,070
More than one year		**2,618**		2,678		**2,168**		2,236
	P	**9,022**	P	9,012	**P**	**6,899**	P	6,306

15.1 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2018 and 2017 is shown below.

	Group				Parent Company			
	2018		2017		**2018**		2017	
Balance at beginning of year	**P**	**1,035**	P	960	**P**	**874**	P	850
Additions		**179**		304		**163**		267
Amortization	**(**	**269)**	(	287)	**(**	**251)**	(	243)
Balance at end of year	**P**	**945**	P	977	**P**	**786**	P	874

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Assets Held-for-Sale and Disposal Group

Assets held-for-sale represents real and other properties that are approved by management to be immediately sold. These mainly include real properties, automobiles and equipment foreclosed by the Parent Company, RSB and RCBC LFC in settlement of loans.

In 2015, RSB classified a portion of investment properties amounting to P1,351 as assets held-for-sale since the carrying amount of those properties will be recovered principally through a sale transaction. The properties were readily available for immediate sale in its present condition and that management believes that the sale was highly probable at the time of reclassification. In June 2017, the properties were sold to a third party with total consideration of P1,385; of which P396 and P989 (present value is P742) were in the form of cash and note receivable, respectively (see Note 11).

In 2013, the Parent Company entered into a joint venture agreement with a third party developer to develop certain investment properties for the purpose of recovering the cost through eventual sale which led to the reclassification of the properties amounting to P337 as assets held-for-sale. This joint arrangement is accounted for as a jointly controlled operation as there was no separate entity created under this joint venture agreement. The joint venture agreement stipulates that the Parent Company shall contribute parcels of land and the co-venturer shall be responsible for the planning, conceptualization, design, construction, financing and marketing of units to be constructed on the properties.

In 2017, the joint venture agreement was terminated and both parties entered into a contract of sale, with the joint venturer property developer purchasing the properties contributed by the Parent Company at a consideration of P551 resulting in a gain from sale of P198, which is recognized as part of Gains on assets sold – net under Miscellaneous Income account in the 2017 statement of profit or loss (see Note 25.1). The outstanding receivables related to this transaction as of December 31, 2017 amounted to P463 and is presented as part of Accounts receivables under Loans and Receivables account in the 2017 statement of financial position (see Note 11).

In 2009, in accordance with the letter received by RSB from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements.

The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of the BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013:

(a) Goldpath
(b) Eight Hills
(c) Crescent Park
(d) Niceview
(e) Lifeway
(f) Gold Place
(g) Princeway
(h) Greatwings
(i) Top Place
(j) Crestview
(k) Best Value

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares was approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.6).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. As the Group is in the process of liquidating the operations of those SPCs, which is expected to be completed in the near future, the carrying amounts of the real properties of those SPCs subject for liquidation are accounted for under PFRS 5; hence, classified as assets held-for-sale.

15.4 Prepaid Expenses

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance.

15.5 Goodwill

The goodwill recognized by the Group as of December 31, 2018 and 2017 pertains to the following:

RSB	P	268
Rizal Microbank		158
		426
Allowance for impairment	(	158)
	P	268

RSB recognized goodwill arising from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of RSB.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2018 and 2017, RSB engaged a third party consultant to perform an independent impairment testing of goodwill. On the basis of the report of the third party consultant dated January 16, 2019 and January 28, 2018 with valuation date as of the end of 2018 and 2017, respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank was fully provided with impairment in 2011.

15.6 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.7 Miscellaneous

Miscellaneous account includes various deposits, advance rentals, service provider fund and other assets.

16. ALLOWANCE FOR EXPECTED CREDIT LOSS AND IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized below.

		Group		Parent Company	
	Notes	**2018**	2017	**2018**	2017
Balance at beginning of year					
Loans and receivables	11	**P 7,903**	P 7,321	**P 4,942**	P 4,792
Investment securities at amortized cost	10.3	**90**	90	**-**	-
Investment properties	14	**58**	34	**-**	-
Other resources	15	**191**	288	**2**	1
		8,242	7,733	**4,944**	4,793
Effect of adoption of the ECL model	2.2				
Loans and receivables		**1,680**	-	**1,959**	-
Investment securities at amortized cost		**21**	-	**10**	-
		1,701	-	**1,969**	-
Impairment losses (recovery):					
Loans and receivables	11	**1,879**	2,076	**1,295**	1,086
Investment securities at at amortized cost	10.3	**24**	-	**15**	-
Loan commitments	4.4.8(d)	**(13)**	-	**(13)**	-
Investment properties	14	**-**	79	**-**	-
Other resources	15	**9**	-	**9**	78
		1,899	2,155	**1,306**	1,164
Charge-offs and other adjustments during the year		**(1,087)**	(1,646)	**(1,146)**	(1,013)
Balance at end of year					
Loans and receivables	11	**10,291**	7,903	**7,041**	4,942
Investment securities at at amortized cost	10.3	**135**	90	**26**	-
Investment properties	14	**92**	58	**6**	-
Other resources	15	**237**	191	**-**	2
		P 10,755	P 8,242	**P 7,073**	P 4,944

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group		Parent Company	
	2018	2017	**2018**	2017
Demand	**P 56,413**	P 51,996	**P 43,650**	P 40,857
Savings	**174,107**	165,187	**147,771**	141,160
Time	**179,724**	161,727	**97,834**	97,148
Long-term Negotiable Certificate of Deposits (LTNCD)	**13,155**	9,502	**13,155**	9,502
	P 423,399	P 388,412	**P 302,410**	P 288,667

The Parent Company's LTNCDs as of December 31, 2018 and 2017 are as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2018	Outstanding Balance 2017
September 28, 2018	March 28, 2024	5.50%	**P 3,580**	P -
August 11, 2017	February 11, 2023	3.75%	**2,502**	2,502
December 19, 2014	June 19, 2020	4.13%	**2,100**	2,100
November 14, 2013	May 14, 2019	3.25%	**2,860**	2,860
November 14, 2013	May 14, 2019	0.00%	**2,113**	2,040
			P 13,155	P 9,502

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes. As of December 31, 2018 and 2017, unamortized debt issue cost amounted to P27 and P20, respectively. Amortization of debt issue cost of P1 in 2018, P3 in 2017 and P2 in 2016, is recorded as part of Interest expenses in the statements of profit or loss.

The maturity profile of the deposit liabilities follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 62,340**	P 71,895	**P 48,771**	P 53,549
One year to more than five years	**16,039**	13,739	**14,253**	12,546
Non-maturing	**345,020**	302,778	**239,386**	222,572
	P 423,399	P 388,412	**P 302,410**	P 288,667

Deposit liabilities, aside from LTNCDs, bear annual interest rates ranging from 0.11% to 3.28% in 2018, 0.10% to 1.84% in 2017, and 0.13% to 1.38% in 2016. The total interest expense incurred by the Group and the Parent Company on deposit liabilities amounted to P6,295 and P3,723, respectively, in 2018, P3,959 and P2,389, respectively, in 2017, and P3,269 and P2,021, respectively, in 2016.

Under existing BSP regulations, non-FCDU deposit liabilities, including tax exempt LTNCDs, of the Parent Company is subject to reserve requirement equivalent to 20% from May 30, 2014 to March 1, 2018, 19% from March 2, 2018 to May 31, 2018, and 18% from June 1, 2018 and thereafter, while RSB and Rizal Microbank are subject to reserve requirement equivalent to 8% both in 2018 and 2017. Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent to 4% in 2018 and 6% in 2017. As of December 31, 2018 and 2017, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 753, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P51,409 and P55,386 for the Group and P39,770 and P46,986 for the Parent Company as of December 31, 2018 and 2017, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign banks	**P 40,613**	P 33,102	**P 40,613**	P 33,102
Local banks	**15,386**	10,862	**8,144**	3,495
Others	**2**	3	**2**	3
	P 56,001	P 43,967	**P 48,759**	P 36,600

The maturity profile of bills payable follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 49,721**	P 33,841	**P 44,177**	P 29,915
Beyond one year but within five years	**5,095**	6,379	**3,397**	5,185
More than five years	**1,185**	3,747	**1,185**	1,500
	P 56,001	P 43,967	**P 48,759**	P 36,600

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

	2018	2017	2016
Group			
Peso denominated	**1.05% - 8.25%**	1.06% - 4.50%	0.88% - 2.98%
Foreign currency denominated	**1.05% - 4.50%**	1.06% - 3.46%	0.10% - 2.86%
Parent Company			
Foreign currency denominated	**1.05% - 4.50%**	1.06% - 3.46%	0.10% - 2.86%

The total interest expense incurred by the Group on the bills payable amounted to P1,541 in 2018, P891 in 2017, and P931 in 2016.

As of December 31, 2018 and 2017, certain bills payable availed under repurchase agreements are secured by the Group's and Parent Company's investment securities (see Note 10.3).

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2018	Outstanding Balance 2017
March 15, 2018	March 16, 2023	4.13%	$ 450	**P 23,560**	P -
November 2, 2015	February 2, 2021	3.45%	320	**16,826**	15,977
January 21, 2015	January 22, 2020	4.25%	243	**12,704**	12,083
			$ 1,013	**P 53,090**	P 28,060

In March 2018, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$450 bearing an interest of 4.13% per annum, payable semi-annually in arrears every March 16 and September 16 of each year. The Senior Notes, unless redeemed, will mature on March 16, 2023. As of December 31, 2018, the peso equivalent of this outstanding bond issue amounted to P23,560.

In November 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The Senior Notes, unless redeemed, will mature on February 2, 2021. As of December 31, 2018 and 2017, the peso equivalent of this outstanding bond issue amounted to P16,826 and P15,977, respectively.

In January 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$243 bearing an interest of 4.25% per annum, payable semi-annually in arrears every January 21 and July 21 of each year, which commenced on July 21, 2015. The Senior Notes, unless redeemed, will mature on January 22, 2020. As of December 31, 2018 and 2017, the peso equivalent of this outstanding bond issue amounted to P12,704 and P12,083, respectively.

The interest expense incurred on these bonds payable amounted to P1,911 in 2018, P1,155 in 2017, and P1,715 in 2016. The Group and Parent Company recognized foreign currency exchange losses related to these bonds payable amounting to P1,489 in 2018, P118 in 2017, and P516 in 2016, which are netted against Foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

20. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7,000 Tier 2 Notes.

The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10,000, are as follows:

(a) The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

(c) The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

(d) Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

(e) The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

(i) it shall reduce the claim on the notes in liquidation;
(ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
(iii) partially or fully reduce the interest payments on the notes.

The total interest expense incurred by the Group and Parent Company on the notes amounted to P555 in 2018, P554 in 2017, and P553 in 2016.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Accrued expenses	**P 2,916**	P 2,809	**P 2,329**	P 2,171
Accrued interest	**2,068**	1,120	**1,436**	838
Taxes payable	**293**	256	**201**	209
	P 5,277	P 4,185	**P 3,966**	P 3,218

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable, bonds payable and subordinated debt at the end of each reporting period.

These obligations are expected to be settled within one year after the reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

		Group		Parent Company	
	Notes	**2018**	2017	**2018**	2017
Accounts payable	28.5(a), 28.5(c)	**P 6,291**	P 6,451	**P 3,590**	P 3,735
Bills purchased – contra		**1,847**	1,079	**1,791**	1,074
Manager's checks		**1,545**	1,575	**919**	835
Post-employment defined benefit obligation	24.2	**1,481**	111	**1,420**	33
Derivative financial liabilities	10.1	**894**	483	**894**	483
Outstanding acceptances payable		**880**	405	**880**	405
Deposit on lease contracts		**471**	342	**122**	105
Payment orders payable		**432**	193	**418**	181
Other credits		**392**	370	**241**	232
Unearned income		**380**	296	**347**	273
Withholding taxes payable		**304**	243	**218**	143
Sundry credits		**125**	121	**117**	96
Advance rentals		**106**	92	**106**	92
ECL provisions on loan commitments	4.4.8(d)	**94**	-	**94**	-
Guaranty deposits		**57**	62	**57**	62
Due to BSP		**29**	39	**24**	39
Miscellaneous		**344**	507	**399**	346
		P 15,672	P 12,369	**P 11,637**	P 8,134

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include unclaimed balances for deposits and other miscellaneous liabilities.

The maturity profile of other liabilities follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 13,271**	P 11,484	**P 9,797**	P 7,702
More than one year	**2,401**	885	**1,840**	432
	P 15,672	P 12,369	**P 11,637**	P 8,134

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock of the Parent Company are as follows:

	Number of Shares		
	2018	2017	2016
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Issued and outstanding:			
Balance at beginning of year	**276,845**	293,987	310,145
Conversion of shares during the year	**(8,958)**	(17,142)	(16,158)
Balance at end of year	**267,887**	276,845	293,987
Common stock – P10 par value			
Authorized:			
Balance at beginning of year	**1,400,000,000**	1,400,000,000	1,400,000,000
Increase during the year	**1,200,000,000**	-	-
Balance at end of year	**2,600,000,000**	1,400,000,000	1,400,000,000
Issued and outstanding:			
Balance at beginning of year	**1,399,916,364**	1,399,912,464	1,399,908,746
Issuance of shares during the year	**535,710,378**	-	-
Conversion of shares during the year	**2,033**	3,900	3,718
Balance at end of year	**1,935,628,775**	1,399,916,364	1,399,912,464

As of December 31, 2018 and 2017, there are 756 and 758 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P28.50 per share and P55.35 per share as of December 31, 2018 and 2017, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay	April 2015	124,242,272
Stock rights offering	Various	July 2018	535,710,378

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Issuance of Common Shares, Purchase and Reissuance of Treasury Shares

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common stock from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) to be subscribed out of the increase in the authorized capital. The increase in authorized capital stock and the Rights Offer were approved by the BSP and SEC on June 29, 2018 and July 4, 2018, respectively. The offering of the stock rights representing 535,710,378 common shares (with equivalent amount of P5,357) occurred from June 25 to June 29, 2018 and the shares were listed at the PSE on July 16, 2018 (see Note 28). The Rights Offer and issuance generated P15,000 proceeds, reduced by P217 issue costs; hence, resulting in P9,426 excess of consideration received over par value recognized in Capital Paid in Excess of Par account in the 2018 consolidated statement of changes in equity.

In 2015, the Parent Company issued common shares to Cathay at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iv) entering into a shareholders agreement with PMMIC and the Parent Company.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

Also, on September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

23.3 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
January 25, 2016	P 0.6495	P 0.02	March 21, 2016	January 25, 2016	*	March 23, 2016
April 25, 2016	0.0660	0.02	June 21, 2016	April 25, 2016	June 16, 2016	June 21, 2016
April 25, 2016	0.7200	1,007.94	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
April 25, 2016	0.7200	0.21	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
July 25, 2016	0.0676	0.02	September 21, 2016	July 25, 2016	September 16, 2016	October 11, 2016
November 2, 2016	0.0724	0.02	December 21, 2016	November 2, 2016	January 13, 2017	January 17, 2017
January 30, 2017	0.0749	0.02	March 21, 2017	January 30, 2017	March 22, 2017	March 24, 2017
April 24, 2017	0.0807	0.02	June 21, 2017	April 24, 2017	April 26, 2017	June 23, 2017
April 24, 2017	0.5520	772.75	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
April 24, 2017	0.5520	0.15	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
July 31, 2017	0.0840	0.02	September 21, 2017	July 31, 2017	September 5, 2017	September 22, 2017
October 30, 2017	0.0840	0.02	December 21, 2017	October 30, 2017	December 12, 2017	December 22, 2017
January 29, 2018	0.0919	0.02	March 21, 2018	January 29, 2018	March 1, 2018	March 28, 2018
March 26, 2018	0.0616	862.35	June 21, 2018	March 26, 2018	April 5, 2018	May 7, 2018
March 26, 2018	0.0616	0.17	April 27, 2018	March 26, 2018	April 5, 2018	May 7, 2018
April 30, 2018	0.1080	0.03	April 27, 2018	April 30, 2018	June 14, 2018	June 25, 2018
July 30, 2018	0.1108	0.03	September 21, 2018	July 30, 2018	September 4, 2018	September 24, 2018
November 26, 2018	0.0111	0.03	December 21, 2018	November 26, 2018	*	December 28, 2018

** Not applicable, BSP approval not anymore required during these periods*

In 2015, the BSP, through the Monetary Board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P10,883 and P9,839 as of December 31, 2018 and 2017, respectively, is not currently available for distribution as dividends.

23.4 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity of the Group and Parent Company at their aggregate amount under Revaluation Reserves account are shown below.

	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2018				
As previously reported	P 1,968	P 85	(P 79)	P 1,974
Effect of adoption of PFRS 9 (see Note 2.2)	456	-	-	456
As restated	2,424	85	(79)	2,430
Actuarial losses on defined benefit plan			(1,263)	(1,263)
Fair value loss on financial assets at FVOCI	(869)	-	-	(869)
Reversal of cumulative translation adjustment on dissolution of a foreign subsidiary	-	(32)	-	(32)
Other comprehensive loss	(869)	(32)	(1,263)	(2,164)
Balance as of December 31, 2018	**P 1,555**	**P 53**	**(P 1,342)**	**P 266**
Balance as of January 1, 2017	P 2,128	P 86	(P 1,593)	P 621
Fair value losses on financial assets at FVOCI	(156)	-	-	(156)
Actuarial gains on defined benefit plan	-	-	1,514	1,514
Translation adjustments on foreign operation	-	(1)	-	(1)
Other comprehensive income (loss)	(156)	(1)	1,514	1,357
Transfer from fair value gains on financial asset at FVOCI to Surplus	(4)	-	-	(4)
Balance as of December 31, 2017	P 1,968	P 85	(P 79)	P 1,974
Balance at January 1, 2016	P 689	P 61	(P 1,268)	(P 518)
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Fair value gains on financial assets at FVOCI	1,442	-	-	1,442
Translation adjustments on foreign operation	-	25	-	25
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2016	P 2,128	P 86	(P 1,593)	P 621

23.5 Appropriation for General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Group shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Group's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2018 include appropriation recognized at January 1, 2018 upon adoption of the ECL model under PFRS 9 amounting to P2,227 and P1,793 (see Note 2.2) for the Group and Parent Company, respectively, and the additional appropriation made in 2018 amounting to P367 and P319 for the Group and Parent Company, respectively.

23.6 Other Reserves

On December 23, 2013, the SPCs' BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus (see Note 15.3).

As of December 31, 2018, this account consists of reserves arising from the acquisition of RCBC LFC and Rizal Microbank for a total of P97.

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group		
	2018	2017	2016
Short-term employee benefits	**P 6,034**	P 5,617	P 5,039
Post-employment defined benefits	**528**	374	369
	P 6,562	P 5,991	P 5,408

	Parent Company		
	2018	2017	2016
Short-term employee benefits	**P 4,138**	P 3,857	P 3,386
Post-employment defined benefits	**334**	307	280
	P 4,472	P 4,164	P 3,666

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's and RSB's Trust Departments, covering all regular full-time employees. The Parent Company's and RSB's Trust Departments manage the fund in coordination with the Parent Company's Retirement Committee, Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to 1.25 to 2 months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2018 and 2017.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Present value of the obligation	**P 4,800**	P 4,995	**P 3,880**	P 4,126
Fair value of plan assets	**(3,321)**	(4,891)	**(2,460)**	(4,100)
Effect of asset ceiling test	**2**	7	**-**	7
Deficiency of plan assets	**P 1,481**	P 111	**P 1,420**	P 33

The Group's and Parent Company's post-employment defined benefit obligation as of December 31, 2018 and 2017 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 4,995**	P 4,953	**P 4,126**	P 4,156
Current service cost	**528**	374	**334**	307
Interest expense	**303**	274	**248**	230
Remeasurements – actuarial losses (gains) arising from changes in:				
– financial assumptions	**(848)**	(230)	**(636)**	(206)
– experience adjustments	**216**	(113)	**155**	(125)
– demographic assumptions	**(9)**	-	**-**	-
Benefits paid by the plan	**(385)**	(263)	**(347)**	(236)
Balance at end of year	**P 4,800**	P 4,995	**P 3,880**	P 4,126

The movements in the fair value of plan assets are presented below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 4,891**	P 3,218	**P 4,100**	P 2,599
Interest income	**292**	186	**245**	149
Return (loss) on plan assets (excluding amounts included in net interest)	**(1,908)**	1,174	**(1,865)**	1,167
Contributions paid into the plan	**431**	576	**327**	421
Benefits paid by the plan	**(385)**	(263)	**(347)**	(236)
Balance at end of year	**P 3,321**	P 4,891	**P 2,460**	P 4,100

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Cash and cash equivalents	**P 473**	P 402	**P 343**	P 311
Debt securities:				
Corporate debt securities	**86**	299	**-**	-
Government bonds	**407**	127	**4**	4
Equity securities:				
Financial intermediaries	**1,778**	3,354	**1,609**	3,124
Transportation and communication	**166**	208	**158**	208
Electricity, gas and water	**100**	170	**97**	169
Diversified holding companies	**46**	26	**20**	22
Others	**24**	22	**1**	1
Unquoted long-term equity investments	**140**	169	**140**	169
UITF	**93**	107	**80**	85
Investment properties	**6**	6	**6**	6
Loans and receivables	**2**	1	**2**	1
	P 3,321	P 4,891	**P 2,460**	P 4,100

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The returns on plan assets are as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Fair value gains (losses)	**(P 1,908)**	P 1,174	**(P 1,865)**	**P** 1,167
Interest income	**292**	186	**245**	149
Actual returns	**(P 1,616)**	P 1,360	**(P 1,620)**	P 1,316

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

	Group		
	2018	2017	2016
Reported in profit or loss:			
Current service cost	**P 528**	P 374	P 369
Net interest expense	**11**	88	62
	P 539	P 462	P 431
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
– Financial assumptions	**P 848**	P 230	P 73
– Experience adjustments	**(216)**	113	(2)
– Demographic assumptions	**9**	-	6
Effect of asset ceiling test	**(2)**	(7)	-
Return (loss)on plan assets (excluding amounts included in net interest)	**(1,908)**	1,174	(402)
	(P 1,269)	P 1,510	(P 325)

	Parent Company		
	2018	2017	2016
Reported in profit or loss:			
Current service costs	**P 334**	P 307	P 280
Net interest expense	**3**	81	60
	P 337	P 388	P 340
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
– Financial assumptions	**P 636**	P 206	P 63
– Experience adjustments	**(155)**	125	(18)
Effect of asset ceiling	**-**	(7)	-
Return (loss) on plan assets (excluding amounts included in net interest)	**(1,865)**	1,167	(394)
	(P 1,384)	P 1,491	(P 349)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense – Bills Payable and Other Borrowings or Interest Income Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2018	2017	2016
Group			
Discount rates	**7.00% - 7.53%**	5.48% - 6.00%	5.00% - 5.60%
Expected rate of salary increases	**4.00% - 10.50%**	4.00% - 8.00%	3.00% - 11.00%
Parent Company			
Discount rates	**7.52%**	6.00%	5.53%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back six years for 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 zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

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 plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described 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 of December 31, 2018 and 2017:

	Group		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2018:			
Discount rate	**+/-1 %**	**(P 97)**	**P 465**
Salary growth rate	**+/-1 %**	**478**	**(421)**
2017:			
Discount rate	+/- 1%	(P 323)	P 403
Salary growth rate	+/- 1%	480	(388)

	Parent Company		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2018:			
Discount rate	**+/- 1%**	**(P 34)**	**P 397**
Salary growth rate	**+/- 1%**	**404**	**(355)**
2017:			
Discount rate	+/- 1%	(P 391)	P 456
Salary growth rate	+/- 1%	413	(363)

The sensitivity analysis 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 sensitivity analysis, the present value of the defined benefit obligation at the end of each reporting period has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P1,481 and P1,420 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2018.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		**Parent Company**	
	2018	2017	**2018**	2017
Less than one year	**P 161**	P 226	**P 28**	P 44
More than one year to five years	**1,457**	1,319	**1,002**	1,094
More than five years to ten years	**3,581**	2,425	**2,995**	1,984
	P 5,199	P 3,970	**P 4,025**	P 3,122

The Group and Parent Company expects to contribute P436 and P336, respectively, to the plan in 2019.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	Group 2018	2017	2016
Rentals	14.2	**P 765**	P 741	P 614
Dividend income	10.2	**189**	234	449
Recoveries from written off assets		**206**	187	161
Gains on assets sold – net	11,14.1, 15.3	**96**	441	120
Others		**292**	290	254
		P 1,548	P 1,893	P 1,598

	Notes	Parent Company 2018	2017	2016
Rentals	14.2, 28.5(a)	**P 454**	P 419	P 407
Dividend income	10.2	**187**	196	307
Recoveries from written off assets		**143**	146	127
Gains on assets sold – net	14.1, 15.3	**28**	232	12
Others		**143**	136	231
		P 955	P 1,129	P 1,084

Miscellaneous income classified as Others includes rebates, penalty charges and other income items that cannot be appropriately classified under any of the foregoing income accounts.

25.2 Miscellaneous Expenses

	Note	Group 2018	2017	2016
Insurance		**P 946**	P 759	P 738
Credit card-related expenses		**894**	907	663
Communication and information services		**488**	447	450
Management and other professional fees		**454**	368	408
Transportation and travel		**294**	217	206
Advertising and publicity		**237**	323	276
Litigation/assets acquired expenses		**228**	166	385
Banking fees		**227**	193	194
Service and processing fees		**223**	155	78
Stationery and office supplies		**172**	149	132
Other outside services		**139**	130	126
Donation and charitable contribution		**53**	51	38
Representation and entertainment		**43**	22	45
Membership fees		**24**	19	21
Others	29.6	**903**	998	1,710
		P 5,325	P 4,904	P 5,470

	Notes	Parent Company 2018	2017	2016
Credit card-related expenses		**P 1,482**	P 1,443	P 663
Insurance	28.5(c)	**596**	564	594
Communication and information services		**370**	328	281
Management and other professional fees		**233**	188	217
Service and processing fees		**223**	137	501
Transportation and travel		**223**	110	93
Advertising and publicity		**186**	244	206
Banking fees		**171**	148	144
Other outside services		**113**	115	113
Stationery and office supplies		**108**	92	86
Litigation/assets acquired expense		**100**	50	181
Donations and charitable contributions		**52**	51	35
Representation and entertainment		**32**	22	13
Membership fees		**22**	19	18
Others	29.6	**599**	572	1,411
		P 4,510	P 4,083	P 4,556

The Group's other expenses are composed of freight, various processing fees, fines and penalties, and seasonal giveaways. The Group and Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P103 and P78, P101 and P67, and P77 and P52 in 2018, 2017 and 2016 respectively (see Note 28).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2018, 2017 and 2016, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2018	2017	2016
Current tax expense:			
RCIT	**P 664**	P 711	P 414
Final tax	**403**	203	177
Excess MCIT over RCIT	**3**	2	190
	1,070	916	781
Application of MCIT	**-**	(356)	-
	1,070	560	781
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(198)**	281	(955)
	P 872	P 841	(P 174)

	Parent Company		
	2018	2017	2016
Current tax expense:			
RCIT	**P 522**	P 563	P 140
Final tax	**313**	147	173
Excess MCIT over RCIT	**-**	-	190
	835	710	503
Application of MCIT	**-**	(356)	-
	835	354	503
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(22)**	343	(842)
	P 813	P 697	(P 339)

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

	Group		
	2018	2017	2016
Tax on pretax profit at 30%	**P 1,558**	P 1,545	P 1,109
Adjustments for income subjected to lower income tax rates	**(496)**	(434)	(180)
Tax effects of:			
Non-taxable income	**(1,239)**	(786)	(845)
Non-deductible expenses	**1,059**	595	520
Recognition of previously unrecognized deferred tax asset	**123**	-	(865)
Utilization of MCIT	**-**	356	-
FCDU income	**(182)**	(306)	(388)
Unrecognized temporary differences	**46**	(130)	97
Utilization of NOLCO	**-**	1	374
Others	**3**	-	4
	P 872	P 841	(P 174)

	Parent Company		
	2018	2017	2016
Tax on pretax profit at 30%	**P 1,540**	P 1,502	P 1,059
Adjustments for income subjected to lower income tax rates	**(431)**	(384)	(118)
Tax effects of:			
Non-taxable income	**(1,113)**	(899)	(889)
Non-deductible expenses	**1,030**	531	420
FCDU income	**(169)**	(275)	(388)
Unrecognized temporary differences	**(44)**	(134)	-
Recognition of previously unrecognized deferred tax asset	**-**	-	(797)
Utilization of MCIT	**-**	356	-
Utilization of NOLCO	**-**	-	374
	P 813	P 697	(P 339)

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2018 and 2017 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2018	2017	**2018**	2017	2016
Allowance for impairment	**P 1,646**	P 1,610	**P 36**	(P 9)	P 867
Provision for credit card reward payments	**156**	127	**29**	22	105
Excess MCIT	**59**	60	**(1)**	(296)	356
Post-employment benefit obligation	**136**	52	**84**	(8)	39
Deferred rent – PAS 17	**38**	30	**8**	13	16
NOLCO	**3**	-	**3**	-	(443)
Others	**56**	17	**39**	(3)	15
Deferred tax assets	**P 2,094**	P 1,896			
Deferred tax income (expense) – net			**P 198**	(P 281)	P 955

In 2016, the Parent Company utilized a portion of its NOLCO available at that year amounting to P1,246.

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2018 and 2017 is shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2018	2017	**2018**	2017	2016
Allowance for impairment	**P 713**	P 720	**(P 7)**	(P 60)	P 780
Provision for credit card reward payments	**156**	127	**29**	22	105
Post-employment benefit obligation	**43**	52	**(9)**	34	18
Deferred rent – PAS 17	**38**	30	**8**	13	17
Excess MCIT	**-**	-	**-**	(356)	356
NOLCO	**-**	-	**-**	-	(443)
Others	**14**	13	**1**	4	9
Deferred tax assets	**P 964**	P 942			
Deferred tax income (expense) – net			**P 22**	(P 343)	P 842

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Allowance for impairment	**P 1,441**	P 925	**P 1,399**	P 763
Excess MCIT	**4**	60	**-**	-
NOLCO	**4**	51	**-**	-
Post-employment benefit obligation	**-**	24	**-**	-
Advance rental	**-**	1	**-**	-
	P 1,449	P 1,061	**P 1,399**	P 763

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The details of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2018	P 11	P -	P -	P 11	2021
2017	5	-	-	5	2020
2016	8	-	-	8	2019
2015	159	37	122	-	
	P 183	**P 37**	**P 122**	**P 24**	

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2018	P 59	P -	P -	P 59	2021
2017	52	50	-	2	2020
2016	2	-	-	2	2019
2015	1	-	1	-	
	P 114	**P 50**	**P 1**	**P 63**	

The MCIT applied by the Group in 2017 solely pertains to the MCIT of the Parent Company as it has generated net taxable income and is liable for RCIT for that year.

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 on November 25, 2010 which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P87,619 and P91,585 as of December 31, 2018 and 2017, respectively. The Parent Company's total trust resources amounted to P58,041 and P64,395 as of December 31, 2018 and 2017, respectively (see Note 29.1).

Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 10.3) with a total face value of P955 and P606 for the Group and the Parent Company, respectively, as of December 31, 2018, and P913 and P604 for the Group and the Parent Company, respectively, as of December 31, 2017 are deposited with the BSP as security for faithful compliance with fiduciary obligations.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2018, 2017 and 2016 is presented below.

		Group					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 261**	(P 55)	P 316	(P 55)	P 371
Deposit liabilities	28.2	**(423)**	**57**	(751)	480	(1,785)	1,231
Interest expense on deposits	28.2	**2**	**-**	5	-	6	-
Cash received from issuance of shares of stock	23.2	**14,783**	**-**	-	-	-	-
Interest income from loans and receivables	28.1	**17**	**-**	16	-	21	-
Associates							
Deposit liabilities	28.2	**(142)**	**135**	266	277	(53)	11
Interest expense on deposits	28.2	**6**	**-**	3	-	5	-
Dividend	12	**2**	**-**	62	-	124	-
Related Parties Under Common Ownership							
Loans and receivables	28.2	**344**	**358**	14	14	(541)	-
Deposit liabilities	28.2	**856**	**3,707**	2,695	2,851	(2,124)	156
Interest expense on deposits	28.2	**37**	**-**	9	-	15	-
Occupancy and equipment related expenses	28.5(a)	**790**	**-**	715	-	926	-
Miscellaneous expenses – others	25.2	**103**	**-**	101	-	77	-
Interest income from loans and receivables	28.1	**2**	**-**	-	-	19	-

		Group					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**(P 198)**	**P 13**	P 210	P 211	(P 1)	P 1
Deposit liabilities	28.2	**(192)**	**94**	43	286	(67)	243
Interest income from loans and receivables	28.1	**1**	**-**	2	-	-	-
Interest expense on deposits	28.1	**1**	**-**	3	-	1	-
Salaries and employee benefits	28.5(d)	**637**	**-**	458	-	376	-
Other Related Interests							
Loans and receivables	28.1	**(6,953)**	**3,153**	5,565	10,106	(2,855)	4,541
Deposit liabilities	28.2	**(1,232)**	**1,062**	2,179	2,294	(361)	115
Interest income from loans and receivables	28.1	**182**	**-**	560	-	567	-
Interest expense on deposits	28.2	**26**	**-**	16	-	3	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 261**	(P 55)	P 316	(P 55)	P 371
Deposit liabilities	28.2	**(423)**	**57**	(751)	480	(1,785)	1,231
Interest expense on deposits	28.2	**2**	**-**	5	-	6	-
Cash received from issuance of shares of stock	23.2	**14,783**	**-**	-	-	-	-
Interest income from loans and receivables	28.1	**17**	**-**	16	-	21	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries							
Loans and receivable	28.1	**P 999**	**P 999**	(P 222)	P -	P -	P 222
Deposit liabilities	28.2	**(79)**	**364**	(2,155)	443	553	2,598
Interest income from loans and receivable	28.1	**7**	**-**	-	-	-	-
Interest expense on deposits	28.2	**6**	**-**	6	-	5	-
Dividend	12	**-**	**-**	315	-	232	-
Rental income	28.5(a) 28.5(b)	**200**	**-**	191	-	186	-
Occupancy and equipment-related expenses	28.5(a)	**352**	**-**	13	-	186	-
Service and processing fees	28.5(c)	**531**	**49**	499	54	460	29
Sale of investment securities	28.3	**35**	**-**	175	-	810	-
Purchase of investment securities	28.3	**3**	**-**	5	-	601	-
Assignment of receivables	11	**(10)**	**182**	(10)	192	(20)	202
Associates							
Deposit liabilities	28.2	**(142)**	**23**	(154)	165	(53)	11
Interest expense on deposits	28.2	**6**	**-**	3	-	5	-
Dividend	12	**102**	**-**	59	-	124	-
Related Parties Under Common Ownership							
Loans and receivables	28.1	**(142)**	**3,128**	3,270	3,270	(541)	-
Deposit liabilities	28.2	**382**	**3,122**	(2,584)	2,740	(2,124)	156
Interest income from loans and receivables	28.1	**-**	**-**	-	-	19	-
Interest expense on deposits	28.2	**28**	**-**	8	-	15	-
Occupancy and equipment-related expenses	28.5(a)	**790**	**-**	715	-	926	-
Miscellaneous expenses – others	25.2	**78**	**-**	67	-	52	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**(P 24)**	**P -**	P 23	P 24	(P 1)	P 1
Deposit liabilities	28.2	**(197)**	**89**	43	286	67	243
Interest income from loans and receivables	28.1	**1**	**-**	2	-	-	-
Interest expense on deposits	28.2	**1**	**-**	3	-	1	-
Salaries and employee benefits	28.5(d)	**298**	**-**	328	-	271	-
Other Related Interests							
Loans and receivables	28.1	**(3,683)**	**3,153**	2,295	6,836	2,855	4,541
Deposit liabilities	28.2	**(1,564)**	**696**	2,145	2,260	(361)	115
Interest income from loans and receivables	28.1	**182**	**-**	560	-	567	-
Interest expense on deposits	28.2	**26**	**-**	16	-	3	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Group			
Related Party Category	**Issuances**	**Repayments**	**Interest Income**	**Loans Outstanding**
2018:				
Stockholders	P -	P 55	P 17	P 261
Related parties under common ownership	376	32	2	358
Key management personnel	9	207	1	13
Other related interests	2,480	9,433	182	3,153
	P 2,865	**P 9,727**	**P 202**	**P 3,785**
2017:				
Stockholders	P -	P 55	P 16	P 316
Related parties under common ownership	210	196	-	14
Key management personnel	691	481	2	211
Other related interests	8,267	2,702	560	10,106
	P 9,168	P 3,434	P 578	P 10,647
2016:				
Stockholders	P -	P 55	P 21	P 371
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 7,332	P 5,074	P 607	P 4,913

	Parent Company			
Related Party Category	**Issuances**	**Repayments**	**Interest Income**	**Loans Outstanding**
2018:				
Stockholders	P -	P 55	P 17	P 261
Subsidiaries	1,000	1	7	999
Related parties under common ownership	-	142	-	3,128
Key management personnel	-	24	1	-
Other related interests	622	4,305	182	3,153
	P 1,622	**P 4,527**	**P 207**	**P 7,541**

Related Party Category	Parent Company Issuances	Repayments	Interest Income	Loans Outstanding
2017:				
Stockholders	P -	P 55	P 16	P 316
Subsidiaries	-	222	-	-
Related parties under common ownership	9,744	6,474	-	3,270
Key management personnel	490	467	2	24
Other related interests	4,997	2,702	560	6,836
	P 15,231	P 9,920	P 578	P 10,446
2016:				
Stockholders	P -	P 55	P 21	P 371
Subsidiaries	1,276	1,276	-	222
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 8,608	P 6,350	P 607	P 5,135

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

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 Group and Parent Company and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group and Parent Company. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

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

	Group		Parent Company	
	2018	2017	**2018***	2017
Total outstanding DOSRI loans	**P 500**	P 542	**P 469**	P 509
Unsecured DOSRI	**94**	71	**83**	61
Past due DOSRI	**-**	1	**-**	1
Non-accruing DOSRI	**2**	1	**2**	1
Percent of DOSRI loans to total loan portfolio	**0.13%**	0.15%	**0.16%**	0.19%
Percent of unsecured DOSRI loans to total DOSRI loans	**18.80%**	13.10%	**17.70%**	11.98%
Percent of past due DOSRI loans to total DOSRI	**0.00%**	0.13%	**0.01%**	0.14%
Percent of non-accruing DOSRI loans to total DOSRI loans	**0.40%**	0.13%	**0.51%**	0.14%

**excludes exposure from a subsidiary*

On January 31, 2007, BSP issued Circular No. 560, *Ceiling on Loans, Other Credit Accommodations and Guarantees Granted to Subsidiaries and Affiliates*, which provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank.

As of December 31, 2018 and 2017, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2018 and 2017, the Group recognized impairment loss on certain loans and receivables from DOSRI amounting to P0.2 and P0.06, respectively, and is recognized as part of Impairment Losses account in the statements of profit or loss.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2018:				
Stockholders	P 7,947	P 8,370	P 2	P 57
Associates	37,554	37,696	6	135
Related parties under common ownership	136,836	135,980	37	3,707
Key management personnel	539	731	1	94
Other related interests	163,957	165,189	26	1,062
	P 346,833	**P 347,966**	**P 72**	**P 5,055**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Associates	32,335	32,069	3	277
Related parties under common ownership	14,007	11,312	9	2,851
Key management personnel	416	373	3	286
Other related interests	213,907	211,728	16	2,294
	P 285,771	P 281,339	P 36	P 6,188
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Associates	35,592	35,645	5	11
Related parties under common ownership	1,287,730	1,289,854	16	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 2,400,320	P 2,404,576	P 31	P 1,756

Related Party Category	Parent Company Deposits	Withdrawals	Interest Expense	Outstanding Balance
2018:				
Stockholders	P 7,947	P 8,370	P 2	P 57
Subsidiaries	91,950	92,029	6	364
Associates	37,554	37,696	6	23
Related parties under common ownership	136,276	135,894	28	3,122
Key management personnel	535	732	1	89
Other related interests	163,957	165,521	26	696
	P 438,219	**P 440,242**	**P 69**	**P 4,351**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Subsidiaries	100,523	102,678	6	443
Associates	32,223	32,069	3	165
Related parties under common ownership	9,058	6,474	8	2,740
Key management personnel	416	373	3	286
Other related interests	136,192	134,047	16	2,260
	P 303,518	P 301,498	P 41	P 6,374
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Subsidiaries	974,281	973,728	5	2,598
Associates	35,592	35,645	9	11
Related parties under common ownership	1,287,730	1,289,854	15	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 3,374,601	P 3,378,304	P 39	P 4,354

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

28.4 Retirement Fund

The Parent Company and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2018, 2017 and 2016 as follows:

	Group		Parent Company	
Nature of Transactions	**Net Amount of Transaction**	**Outstanding Balance**	**Net Amount of Transaction**	**Outstanding Balance**
2018:				
Investment in common shares of Parent Company	(P 855)	P 1,867	(P 853)	P 1,863
Investments in corporate debt securities	49	51	49	49
Deposits with the Parent Company	(312)	5	(311)	-
Fair value losses	(855)	-	(849)	-
Interest income	5	-	3	-
2017:				
Investment in common shares of Parent Company	(P 6)	P 3,123	(P 6)	P 3,123
Investments in corporate debt securities	(49)	2	(49)	-
Deposits with the Parent Company	245	317	239	311
Fair value gains	1,272	-	1,266	-
Interest income	5	-	4	-
2016:				
Investment in common shares of Parent Company	P -	P 1,866	P -	P 1,863
Investments in corporate debt securities	(5)	51	-	49
Deposits with the Parent Company	75	72	72	72
Fair value gains	29	-	31	-
Interest income	4	-	3	-

The carrying amount and the composition of the plan assets as of December 31, 2018 and 2017 are disclosed in Note 24.2. Investments in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.8(b)]. Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2020.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2). The outstanding receivable on the lease contracts, if any, is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The initial lease is for a period of five years which ended in October 2018 and was renewed in September 2018 for an extended period. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2018	2017	2016
Short-term employee benefits	**P 619**	P 442	P 361
Post-employment defined benefits	**18**	16	15
	P 637	P 458	P 376

	Parent Company		
	2018	2017	2016
Short-term employee benefits	**P 298**	P 328	P 271
Post-employment defined benefits	**-**	-	-
	P 298	P 328	P 271

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, claims from customers and third parties, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2018 and 2017:

	Group		Parent Company	
	2018	2017	**2018**	2017
Trust department accounts	**P 87,639**	P 91,585	**P 58,061**	P 64,395
Derivative assets	**57,253**	46,230	**57,253**	46,230
Derivative liabilities	**53,261**	41,822	**53,261**	41,822
Outstanding guarantees issued	**49,553**	41,858	**49,553**	41,858
Unused commercial letters of credit	**19,231**	17,055	**19,194**	17,055
Spot exchange sold	**6,436**	6,307	**6,331**	6,198
Spot exchange bought	**6,330**	6,204	**6,330**	6,204
Inward bills for collection	**1,009**	1,407	**1,009**	1,407
Outward bills for collection	**614**	133	**614**	133
Late deposits/payments received	**607**	566	**569**	434
Others	**17**	17	**17**	17

29.2 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI) (collectively, "Global Steel"), which purchased the Iligan Plant assets of the NSC ("NSC Plant Assets") from the Liquidator in 2004, initiated arbitral proceedings against the Liquidator and the Secured Creditors, including the Parent Company and RCAP, with the Singapore International Arbitration Centre ("SIAC") for their failure to deliver the NSC Plant Assets free and clear from liens and encumbrances. This purportedly prevented Global Steel from using the same as collateral for additional loans for the operations and upgrade of the NSC Plant. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award directing the Liquidator and Secured Creditors to pay Global Steel the total amount of (a) US$80, as and by way of lost opportunity to make profit, and (b) P1,403, representing the value of the undelivered Billet Shop Land measuring 3.4071 hectares (the "Lost Land Claim").

On appeal, and on July 31, 2014, the Singapore High Court set aside the Partial Award, and (a) subsequently ordered the lifting of the 2008 injunctions issued against the Secured Creditors, thereby empowering the Secured Creditors to compel Global Steel to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon Global Steel's failure to do so, and (b) directed the release of Global Steel's installment payment to the Secured Creditors, which enabled the Parent Company and RCAP to receive their respective share therein.

On March 31, 2015, the Singapore Court of Appeals affirmed the earlier decision of the Singapore High Court which set aside the monetary award of US$80 and P1,403 in favor of Global Steel, and deemed improper the deferment of Global Steel's obligation to pay the purchase price of the NSC Plant Assets. The Singapore Court of Appeals further held that (a) the SIAC Arbitral Tribunal had no jurisdiction over the issue of lost opportunity to make profit, (b) there is no evidentiary support for such award, and (c) the ruling on the issue of the Lost Land Claim, as well as the dispute relating to Global Steel's payment obligation, both relate to the OMNA, which is not arbitrable. Accordingly, the SIAC Arbitral Tribunal cannot compel the Parent Company, RCAP and the other Secured Creditors to defer holding Global Steel in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

On November 27, 2015, the Singapore Court of Appeals clarified that the issue of Global Steel's lost opportunity to make profit cannot be remanded to the SIAC Arbitral Tribunal, or to a new arbitral tribunal, to be litigated anew after the setting aside of the Partial Award. The doctrines of res judicata and abuse of process also operated to preclude the reopening of this issue. However, the Singapore Court of Appeals held that the Lost Land Claim may be brought before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the Secured Creditors.

The Parent Company's estimated exposure is approximately P216 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of P486, taking into consideration the P49 share it received from Global Steel's installment payment. The Parent Company has recognized full impairment loss on the receivable since then, with the gross amount of receivable classified as UDSCL under Loans and Receivable account. The Parent Company's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the NSC assets sold to Global Steel, covering the period 1999 to October 14, 2004, are deemed paid, following the finality of the Supreme Court Decision against the City of Iligan and the issuance of an Entry of Judgment on March 16, 2016, in the case initiated solely by the NSC Liquidator.

In defiance, however, of the final and executory ruling against the City of Iligan, (a) issued a Notice of Delinquency against NSC for tax arrears covering the period 1999 to 2016, (b) levied the NSC properties, and (c) set the public auction thereof on October 19, 2016, even as the Local Government Unit (LGU) received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57 ("Makati Trial Court"), directing it to (a) comply with the affirmed Tax Amnesty Agreement dated October 13, 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion to (a) direct the City of Iligan, the Sangguniang Panglunsod and City Treasurer to show cause why they should not be held in contempt, and (b) nullify the October 19, 2016 Auction Sale of the NSC properties.

In an Order dated April 4, 2017, the Makati Trial Court (a) nullified the public auction of the NSC properties, and (b) enjoined the collection of any and all real property tax against the NSC until the Decision dated October 7, 2011 holding that the NSC pre-closing taxes have been paid, is fully executed and the NSC's remaining tax liabilities are correctly computed. The Makati Trial Court likewise (a) directed the Iligan City Treasurer to show cause why she should not be held in contempt of court for proceeding with the auction sale without clearing the NSC of the pre-closing taxes, and (b) directed the Iligan City Treasurer, among others, to inform the Makati Trial Court of the names of the persons who ordered, aided and abetted her assailed conduct. The LGU and the Iligan City Treasurer, among others, moved for the reconsideration of the April 4, 2017 Order, which was denied by the Makati Trial Court.

The City of Iligan filed a Petition for Certiorari dated July 6, 2018 with the Court of Appeals, reiterating the claim that the said LGU had the right to auction the NSC properties due to non-payment of both pre-closing and post-closing taxes. The Petition likewise alleged that (a) the writ of execution issued by the Makati Trial Court was null and void, and (b) the case before the Makati Trial Court was an action to assail the tax delinquency auction sale which should not have been given due course for non-payment of docket fees and non-deposit of the contested tax amount of P4,610.

29.3 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. ("VMS"), a Netherlands corporation and an Internet merchant providing on-line adult entertainment, on-line gambling, and on-line selling of pharmaceuticals, and Verotel International Industries, Inc. ("VII"), a Philippine corporation, civilly sued the Parent Company, Bankard, Inc. ("Bankard"), Grupo Mercarse Corp., CNP Worldwide, Inc. and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5, which the defendants allegedly misappropriated.
The case went to trial in January 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for the Presiding Judge's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. After manifesting their intention to file a motion for judgment notwithstanding verdict ("JNOV") and motion for new trial, the Parent Company/Bankard filed the same on April 11, 2016. On April 27, 2016, the Parent Company/Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, the Parent Company/Bankard's Motion for JNOV was partially granted, wherein the award of US$7.5 punitive damages to VMS was deleted due to insufficient proof that (a) a corporate officer of the Parent Company/Bankard knew of, authorized, or ratified fraudulent acts, and (b) Janet Conway was a managing agent of the Parent Company/Bankard within the meaning of the California Civil Code Section 3294(b). However, the Presiding Judge ruled that Conway was an agent for some purpose and awarded US$1.5 to VMS. The Presiding Judge likewise denied the Parent Company/Bankard's Motion for New Trial, and awarded VMS pre-judgment interest in the amount of US$0.5.

On July 11, 2016, the Parent Company/Bankard filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals. VMS filed its own Notice of Appeal. On July 21, 2016, the Parent Company/Bankard timely posted the amount of US$3.1, as and by way of security to stay the enforcement of the Amended Judgment rendered by the Presiding Judge.

On September 8, 2016, VMS filed its unsealed Certificate of Interested Persons, after the California Court of Appeals sustained the Parent Company/Bankard's position that the identities of the persons behind VMS is central to the issue of whether VMS has legal standing to sue and is entitled to any damages. In an Order dated/filed on November 16, 2016, the California Court of Appeals adopted the briefing sequence proposed by the Parent Company/ Bankard, thus, allowing the full ventilation of the case on appeal.

Subsequently, on March 7, 2017, the Presiding Judge directed the Parent Company/Bankard to pay VMS the additional amount of US$0.08 covering cost of proof sanctions, ruling that the Parent Company/Bankard unjustifiably denied VMS's request for admission that they failed to comply with MasterCard and VISA association rules. The Parent Company/Bankard timely filed their Notice of Appeal but no longer posted any additional filing fees, following VMS's agreement not seek to enforce of the said award during the pendency of the appeal.

The Parent Company/Bankard filed their Revised Opening Brief on their Appeal on October 2, 2017, pointing out that: (a) VMS failed to prove that its losses was caused by the Parent Company/Bankard, as the evidence indicate that, in a side deal without Bankard's knowledge and consent, VMS was processing transactions under/using the Merchant ID of another merchant which did not remit all of the sales proceeds so generated; (b) there is no contract/ processing relationship between VMS and Bankard; (c) there is no substantial evidence proving that the Parent Company/Bankard caused VMS's loss under agency law, given that (i) Conway could not be Bankard's agent as a matter of law, because she was defrauding Bankard, (ii) plaintiffs did not establish that Conway was an agent of Bankard, (iii) plaintiff did not establish that Conway was a purported agent of Bankard, and (iv) plaintiffs did not establish that Conway's wrongful conduct was within the scope of her agency; and, (d) the Presiding Judge abused his discretion in awarding cost of proof sanctions.

On March 28, 2018, the Parent Company/Bankard was advised of the filing of VMS's Combined Respondents' Brief and Cross-Appellants' Opening Brief. On August 14, 2018, the Parent Company/Bankard filed their combined Reply and Cross-Respondent's Brief. In accordance with prior stipulations, VMS timely filed its Final Reply Brief dated October 31, 2018. The parties are now awaiting the advice of the California Court of Appeals on the schedule date of the oral arguments.

29.4 Applicability of RR 4-2011

On March 15, 2011, the Bureau of Internal Revenue issued RR 4-2011, which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to the Parent Company, other banks and financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU.

On April 6, 2015, the Parent Company and other member-banks of the Bankers Association of the Philippines ("other BAP member banks") filed a Petition for Declaratory Relief with Application for TRO and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein it was pointed out, among others, that (a) RR 4-2011 violates the Parent Company and other BAP member banks' procedural and substantive due process rights; (b) it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (c) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation; and, (d) it violated the equal protection clause of the Constitution for requiring the Parent Company and other BAP member banks to adopt a method of allocation when other institutions and taxpayers were not being required to do so by the Department of Finance ("DOF") and BIR.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, the Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Parent Company and other BAP member banks, including the issuance of Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Parent Company and other BAP member banks are concerned. The pre-trial conference of the case began on August 2, 2016 and continued until August 3, 2017. During the hearing on August 3, 2017, in lieu of trial for the resolution of the case, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017, which has been complied with. In an Order dated May 25, 2018, the Makati Trial Court granted the Petition for Declaratory Relief and declared RR 4-2011 null and void for being issued beyond the authority of the Secretary of Finance and Commissioner of the BIR. The Makati Trial Court likewise made permanent the Writ of Preliminary Injunction it issued earlier.

The DOF and the BIR elevated the matter to the Supreme Court via a Petition for Review on Certiorari dated August 1, 2018, alleging that (a) the petitions assailing the validity of RR 4-2011 should have been brought before the Court of Tax Appeal and not the Makati Trial Court, (b) upon the issuance of RR 4-2011, the Parent Company and other BAP member banks should have already adjusted their accounting and book keeping methods, (c) the declaratory relief action was no longer proper in view of the issuance of Preliminary Assessment Notices, and (d) RR 4-2011 is a valid regulatory issuance of the DOF and BIR.

29.5 Poverty Eradication and Alleviation Certificates Bonds

In October 2011, after filing a case before the Court of Tax Appeals, the Parent Company withdrew the same and joined other banks in questioning the BIR's act of withholding a 20% final tax on the PEACe Bonds before the Supreme Court. Notwithstanding the pendency of the case and the Supreme Court's issuance of a Temporary Restraining Order ("TRO"), on October 18, 2011, the Bureau of Treasury still withheld P199 from its interest payment on the Parent Company's PEACe bonds holdings. The amount was originally recognized as part of Accounts Receivables under Loans and Receivables account in the statements of financial position until it was settled in 2017.

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20% final withholding tax it withheld on the PEACe Bonds in October 2011. On March 16, 2015, the Parent Company and RCAP filed a Motion for Clarification and/or Partial Reconsideration, (a) seeking the exclusion of the PEACe Bonds from the definition of "deposit substitutes" as there was only one lender at the primary market, and their subsequent sales in the secondary market is considered a sale or assignment of credit not subject to withholding tax; (b) praying that, in the event the PEACe Bonds is considered as a deposit substitute, that the final withholding tax be directly collected from RCAP/Code NGO, or any lender or investor, as withholding agents; and (c) reiterating that the tax constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the Bureau of Treasury's obligation as issuer of the PEACe Bonds. The Office of the Solicitor General ("OSG"), as counsel for the Republic and other public respondents, also filed a Motion for Reconsideration and Clarification, arguing the correctness of the BIR's position and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Parent Company and RCAP's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this ruling, however, cannot be applied retroactively in the case of the Parent Company and RCAP, which relied in good faith on the previous rulings/opinions of the BIR on the matter, and (c) as such, the PEACe Bonds cannot be treated as a deposit substitute. The Supreme Court likewise denied the Motion for Reconsideration and Clarification filed by the OSG, holding that due to the Bureau of Treasury's continued refusal to release the amount it withheld on October 18, 2011, in violation of the TRO, the Bureau of Treasury is liable to pay legal interest of six percent (6%) per annum on the said amount, counted from October 19, 2011 until fully paid.

On April 11, 2017, the Parent Company received a copy of the Entry of Judgment attesting to the finality of the Decision dated January 13, 2015, and the Resolution dated August 16, 2016 granting its Motion for Clarification and/or Partial Reconsideration, as of October 20, 2016. After initially paying the amount of P197 to the Parent Company, the Bureau of Treasury paid the balance of P1.8 on October 18, 2018.

29.6 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company occurred, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board of the BSP imposed supervisory action on the Parent Company and directed it to pay the fine of P1,000. The Parent Company has fully recognized in the 2016 statement of profit or loss the P1,000 supervisory action as part of Miscellaneous Expenses under Other Operating Expenses account (see Note 25.2), and has fully paid the same. The Parent Company does not expect this imposition of supervisory action to affect its ability to perform its existing obligations or unduly hamper its operations.

On November 2018, the Anti-Money Laundering Council ("AMLC") filed a criminal complaint against former and current officers and employees of the Parent Company with the Department of Justice ("DOJ"). The AMLC alleged that Raul Victor B. Tan ("Tan"), Ismael S. Reyes ("Reyes"), Brigitte R. Capiña ("Capiña"), Nestor O. Pineda ("Pineda"), Romualdo S. Agarrado ("Agarrado") and Angela Ruth S. Torres ("Torres") violated Section 4(f) of R.A. No. 9160, as amended ("AMLA"), when they performed or failed to perform an act, which facilitated the crime of money laundering particularly the remittance and eventual withdrawal of US$81 from certain accounts maintain in the Parent Company.

On March 27, 2017, Tan, Reyes, Capiña, and Agarrado, filed their Joint Counter-Affidavit contesting, among others, their culpability and the existence of several required elements to the charges alleged by the AMLC. On May 18, 2017, the AMLC filed its Consolidated and Joint Reply Affidavit. On July 10, 2017, Tan, Reyes, Capiña and Agarrado filed their respective Individual Rejoinder Affidavits. In a Resolution dated February 5, 2018, the newly assigned DOJ investigating prosecutor found probable cause against Tan, et al., and recommended the filing of the corresponding Information against them. On March 22, 2018, Tan, Reyes, Capiña, and Agarrado timely filed their Motion for Reconsideration on the aforementioned DOJ Resolution.

In a belatedly filed Consolidated Opposition dated June 21, 2018, the AMLC insisted that the Philippine courts have adopted the US "Willful Blindness" doctrine, and that the contents of the MT103 message should have made Tan, Reyes and Capiña suspicious of the remittances in issue. In their Reply dated August 7, 2018, Tan, Reyes and Capiña pointed out, among others, that (a) the AMLC's position is a departure from its earlier claim that they ought to be charged for failing to read the same MT103 message, and (b) only final decisions of the Supreme Court become judicial precedents, and that the cited tax evasion decision of the Court of Tax Appeals cannot be accorded the same status. Agarrado, for his part, reiterated that it was Torres and Maia S. Deguito ("Deguito") who approved the large transaction withdrawals on February 9, 2016.

On March 8, 2016, William S. Go ("Go"), an existing client of the Parent Company in another Business Center, and the Parent Company, filed criminal charges against Deguito and Torres with the Office of the City Prosecutor of the Makati City ("OCP-Makati"). The criminal complaints alleged that the two former employees of the Parent Company (a) falsified bank documents in order to open fictitious US Dollar and Peso denominated accounts in the name of Go DBA Centurytex Trading, which were used in the transfer/ conversion of US$81 allegedly unlawfully debited from the Bank of Bangladesh's account with the New York Federal Bank, and (b) Torres committed perjury when she executed an affidavit identifying Go as the person who allegedly received the P20 withdrawn from his fictitious Peso account on February 5, 2016.

The OCP-Makati found probable cause to charge Deguito with several counts of falsification, now pending before the Metropolitan Trial Court of Makati City, Branch 63 ("Makati MTC"). On the other hand, the OCP-Makati dismissed the charges of falsification against Torres, but found probable cause to charge her for perjury, which is also pending in the Makati MTC. The Parent Company appealed the dismissal of the falsification charge against Torres, as with the dismissal of its criminal complaint against another former employee of the Parent Company who conspired with Deguito and Torres.

On October 22, 2018, as a result of the untimely death of Go, the Prosecution applied for a subpoena for the video recordings and the Transcript of Stenographic Notes of Go's testimony before the Senate Blue Ribbon Committee, showing Go's denial that he had anything to do with the February 5, 2016 transactions at the Jupiter Business Center of the Parent Company.

29.7 RCBC Securities Case

In December 2011, RSI initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), who carried out certain questionable transactions with her own personal clients. Since then, RSI has filed additional criminal and civil cases against Valbuena, and on November 17, 2016, the Makati MTC, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC P30, payable in five years, in settlement of all the claims against her, which RSI refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties.

In May 2012, the Capital Markets Integrity Corporation ("CMIC") conducted an investigation on the complaint filed by Francisco Ken Cortes ("Cortes") against RSEC. On July 3, 2015, the CMIC issued a Resolution dismissing the said complaint. After the denial of his Motion for Reconsideration, Cortes no longer appealed the same to the SEC en banc. Thus, the dismissal of his complaint became final and executory.

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio Holdings, Inc. ("Cognatio") likewise filed a complaint against RSI with the CMIC, even as Cognatio's earlier complaint dated December 30, 2013 against RSI, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, remained pending with the Enforcement and Investor Protection Department of the SEC ("EIPD-SEC") ("SEC Cognatio Case").

In its decision letter dated December 4, 2014, the CMIC dismissed the complaint filed by Palanca and Cognatio on the ground of prescription and res judicata, which the latter appealed to the SEC en banc. The SEC en banc granted Palanca and Cognatio's appeal. In turn, RSI elevated the said decision to the Court of Appeals, which (a) ruled in its favor, holding that Palanca and Cognatio committed willful and deliberate forum shopping, and (b) denied Palanca and Cognatio's Motion Reconsideration in its Resolution dated September 5, 2018. On September 26, 2018, Palanca and Cognation signified their intention to challenge the decision and resolution of the Court of Appeals before the Supreme Court via a Petition for Review to be filed on or before October 11, 2018.

Citing the decision of the Court of Appeals finding Palanca and Cognatio guilty of willful and deliberate forum-shopping, RSI and its former Vice President for Operations/Chief Finance Officer filed a Manifestation with Motion to Dismiss the SEC Cognatio Case, which remains pending with the EIPD-SEC.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Makati Trial Court, Branch 149, principally praying for the return of his shares of stock and cash payments which he supposedly turned over to Valbuena. RSI sought the dismissal of the complaint on the ground of lack of jurisdiction due to the non-payment of the correct filing fees and failure to state a case of action, which was denied by the Makati Trial Court. Aggrieved, RSI filed a Petition for Certiorari with the Court of Appeals, which ruled in favor of RSI in its Decision dated October 9, 2014.

Ku elevated the ruling of the Court of Appeals to the Supreme Court via a Petition for Review, which was granted in the Decision dated October 17, 2018. The Supreme Court held that the Court of Appeals erred in dismissing the case, as Ku's immediate payment of the deficiency docket fees indicate a lack of intention to evade the payment of the correct filing fees. RSI filed its Motion for Reconsideration on November 28, 2018. Having been apprised of the Decision of the Supreme Court, the Makati Trial Court issued an Order dated November 26, 2018, setting a status conference case on December 14, 2018.

Except for the above-mentioned proceedings, the Parent Company is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

29.8 Lease Commitments

(a) Parent Company as a Lessor

The Parent Company has entered into various lease contracts related to RSB Corporate Center, an investment property held for rental, with lease terms ranging from one to five years and with monthly rent depending on market price with 5% escalation rate every year. Total rent income earned from these leases amounted to P328, P297, and P280 in 2018, 2017, and 2016, respectively, which are presented as part of Rental under the Miscellaneous Income account in the statements of profit or loss (see Note 25.1). A certain office and parking spaces in RSB Corporate Center are being lease out to RSB [see Note 28.5(b)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	2018	2017
Within one year	**P 573**	P 375
After one year but not more than five years	**804**	486
	P 1,377	P 861

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers for lease periods from one to 25 years. The Group's rental expense related to these leases (included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss) amounted to P1,187, P977, and P742 in 2018, 2017, and 2016, respectively. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

The future minimum rental payables under these non-cancellable operating leases are as follow:

	Group		Parent Company	
2018:				
Within one year	P	1,007	P	727
After one year but not more than five years		3,025		2,236
More than five years		323		259
	P	**4,355**	**P**	**3,222**
2017:				
Within one year	P	811	P	673
After one year but not more than five years		2,640		2,375
More than five years		335		291
	P	3,786	P	3,339

30. EARNINGS PER SHARE

The following shows the Group's profit and per share data used in the basic and diluted EPS computations for the three years presented:

	2018		2017		2016	
Net profit	**P**	**4,320**	P	4,308	P	3,868
Weighted average number of outstanding common stocks		**1,646**		1,400		1,400
Basic and diluted EPS	**P**	**2.62**	P	3.08	P	2.76

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group		
	2018	2017	2016
Return on average equity			
Net profit / Average total equity	**5.78%**	6.72%	6.42%
Return on average resources			
Net profit / Average total resources	**0.73%**	0.82%	0.77%
Net interest margin			
Net interest income / Average interest earning resources	**4.00%**	4.25%	4.06%
Profit margin			
Net profit / Revenues	**16.31%**	17.15%	16.95%
Debt-to-equity ratio			
Total liabilities / Total equity	**6.94**	7.27	7.39
Resources-to-equity ratio			
Total resources / Total equity	**7.94**	8.27	8.39
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.50**	1.73	1.50

	Parent Company		
	2018	2017	2016
Return on average equity			
Net profit / Average total equity	**5.79%**	6.74%	6.43%
Return on average resources			
Net profit / Average total resources	**0.90%**	1.02%	0.93%
Net interest margin			
Net interest income / Average interest earning resources	**3.80%**	3.85%	3.47%
Profit margin			
Net profit / Revenues	**20.88%**	22.34%	22.67%

	Parent Company		
	2018	2017	2016
Debt-to-equity ratio			
Total liabilities / Total equity	**5.30**	5.60	5.73
Resources-to-equity ratio			
Total resources / Total equity	**6.30**	6.60	6.73
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.68**	1.95	1.60

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's and Parent Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (see Note 18)		**Bonds Payable (see Note 19)**		**Total Financing Activities**	
	Group	**Parent**	**Group**	**Parent**	**Group**	**Parent**
Balance at January 1, 2018	P 43,967	P 36,600	P 28,060	P 28,060	P 72,027	P 64,660
Cash flow from financing activities:						
Availments	44,522	42,769	23,520	23,520	68,042	66,289
Payments/redemption	(32,790)	(30,912)	-	-	(32,790)	(30,912)
Non-cash financing activities:						
Foreign exchange losses	302	302	1,489	1,489	1,791	1,791
Amortization of premium	-	-	21	21	21	21
Balance at December 31, 2018	**P 56,001**	**P 48,759**	**P 53,090**	**P 53,090**	**P 109,091**	**P 101,849**
Balance at January 1, 2017	P 37,643	P 31,712	P 41,595	P 41,595	P 79,238	P 73,307
Cash flow from financing activities:						
Availments	20,561	15,477	-	-	20,561	15,477
Payments/redemption	(14,472)	(10,788)	(13,687)	(13,687)	(28,159)	(24,475)
Non-cash financing activities:						
Foreign exchange losses	235	199	118	118	353	317
Amortization of premium	-	-	34	34	34	34
Balance at December 31, 2017	P 43,967	P 36,600	P 28,060	P 28,060	P 72,027	P 64,660

33. EVENT AFTER THE REPORTING PERIOD

In January 2019, a certain borrower of the Parent Bank has filed in court for a corporate rehabilitation involving a proposed restructuring of the borrower's outstanding loans as of December 31, 2018. The proposed loan restructuring stipulates a three-year grace period of both loan principal and interest with a commitment to pay the restructured loan on a monthly basis commencing on January 2022.

ANNEX C

Audited Financial Results as of and for the year ended 31 December 2017

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Report of Independent Auditors

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Rizal Commercial Banking Corporation
Yuchengco Tower, RCBC Plaza
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Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2017, 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 Group and of the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<u>Key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:</u>

(a) Impairment of Loans and Receivables

Description of the Matter

As of December 31, 2017, the Group's loans and receivables amounted to P354,243 million, net of allowance for impairment of P7,993 million, while the Parent Company's loans and receivables amounted to P265,791 million, net of allowance for impairment of P4,942 million, which details are disclosed in Note 11 to the financial statements. Loans and receivables are the most significant resources of the Group and the Parent Company which represented 64% and 60% of the total resources, respectively. Both the Group's and the Parent Company's management exercise significant judgment and use subjective estimates in determining when loans and receivables are impaired and how much impairment loss are required to be recognized in the financial statements. These judgment and estimates are set out in the Group's and the Parent Company's accounting policies in Note 2 to the financial statements, which describes the following impairment assessments:

- Loans and receivables are assessed for impairment on an individual basis if there is objective evidence of impairment that exists (or a loss event) as of the end of the reporting period. Management considers the following in determining that a loss event occurred, among others, a significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; and, it becoming probable that the borrower will enter bankruptcy or other financial reorganizations. Loss events are assessed by management and are assigned to individually impaired loan and receivable according to the following credit grades: substandard, doubtful and loss, depending on the level of credit risk.

- Collective assessments are made on a portfolio basis where loans and receivables are grouped on the basis of similar credit risk characteristics (i.e., on the basis of management's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). The methodology utilized by management in collective impairment assessment uses significant assumptions such as default rate and loss given default, which are applied to each portfolio belonging to a particular group and credit grade.

Because of the significance of the amounts involved and subjectivity of management's judgment and estimates used, we identified the inadequacy of the allowance for impairment on loans and receivables as a significant risk of material misstatement in the financial statements.

How the Matter was Addressed in the Audit

We established reliance on the Group's and the Parent Company's internal control by testing the design and operating effectiveness of key activities-level controls over the assessment and approval of customer credit; the capturing of information relevant to calculation of the amount of allowance for impairment (e.g., risk grades, default rates and loss given defaults); and, the calculation and recognition of impairment loss.

In addition, we performed substantive audit procedures, which included, among others:

- checking and evaluating the methodology used by management whether it was in accordance with the individual and collective impairment assessments prescribed by Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*;

- on selected loan accounts, checking whether the loans identified for individual impairment assessment were appropriately classified according to credit grades and recalculating the net present values of expected future cash inflows using the effective interest rates applicable to each loan, which were compared to the outstanding balances of the loans; and,

- evaluating management's judgment applied in determining the significant assumptions and inputs used in computing the impairment loss for collective assessment such as default rates and loss given defaults by reviewing payment history for selected loans per economic activity or industry classification and credit grade.

(b) Fair Value Measurement of Unquoted Security Classified at Fair Value Through Profit or Loss

Description of the Matter

The Group and the Parent Company has significant investment in an unquoted equity security classified at fair value through profit or loss (FVPL) amounting to P543 million as of December 31, 2017, on which management recognized P43 million fair value loss in profit or loss in 2017. The valuation of such financial instrument involves a complex valuation technique (i.e., price-to-book value method) and significant estimation which are highly dependent on underlying assumptions and inputs such as price-to-book ratios of comparable listed entities and application of a certain haircut rate. These inputs are considered Level 3 unobservable inputs in the fair value hierarchy under PFRS 13, *Fair Value Measurement*, as discussed in Notes 3 and 7 to the financial statements. Accordingly, the valuation of such security was considered significant to our audit.

How the Matter was Addressed in the Audit

Our work included evaluating the appropriateness of management's valuation methodology in accordance with PFRS 13. We used our own internal valuation expert to assess and challenge the valuation assumptions used, including the identification of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we reviewed available non-financial information relevant to the assessment of the potential marketability of the subject security, and the consistency of the application of the haircut rate used in prior period in light of the current industry and economic circumstances.

(c) Appropriateness of Disposals of Investment Securities at Amortized Cost

Description of the Matter

As of December 31, 2017, the Parent Company carries in its financial statements investment securities held under its hold-to-collect (HTC) business model, which are measured at amortized amounting to P48,141 million. In 2017, it disposed of a portion of its US dollar-denominated HTC securities with face value of US$449 million (P22,466 million) and carrying amount of P22,279 million. The disposal was made in anticipation to the possible impact on the Parent Company's qualifying capital in connection with the adoption of PFRS 9 (2014), *Financial Instruments*, in 2018 which would require recognition of additional allowance for impairment on certain financial assets under the expected credit loss model; and as a result, would diminish the Parent Company's existing level of qualifying capital. The disposal aims for the Parent Company to ensure its continuing regulatory compliance with the required minimum Common Equity Tier 1 ratio by the BSP.

Management assessed that such disposal remains to be consistent with the Parent Company's HTC business model for the portfolio with the objective of collecting contractual cash flows. The assessment to determine whether the disposal of the HTC securities is consistent with the Parent Company's HTC business model is significant to our audit because the assessments involve significant judgment and would impact the measurement of the investment securities in the affected portfolios. The disclosures in relation to these matters are included in Note 10 while the disclosures of the Parent Company's assessment of the business model applied in managing financial instruments are presented in Note 2 to the financial statements.

How the Matter was Addressed in the Audit

We confirmed the appropriateness of the Parent Company's disposal of the US dollar denominated HTC securities by reviewing the documentation of the approval of the Parent Company's Executive Committee on June 28, 2017 as required by the BSP, which was ratified by the Parent Company's Board of Directors. We assessed whether the disposals are made consistent with the permitted sale events documented in the Parent Company's business model in managing financial assets manual and with the relevant requirements of both the financial reporting standard and the BSP. We also assessed the appropriateness and reasonableness of the underlying data used and the rationale documented by the Parent Company in the determination of the amount of HTC securities disposed of relative to the current and forecasted level of qualifying capital sufficient to ensure continuing compliance with the regulatory requirements of the BSP.

(d) Recoverability of Deferred Tax Assets

Description of the Matter

The Group's and the Parent Company's deferred tax assets amounted to P1,896 million and P942 million, respectively, as of December 31, 2017. The recognition of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent of the changes in probability that sufficient taxable profits will be available to allow all or part of such deferred tax assets to be utilized. Determining the probabilities of sufficiency of future taxable profits involves significant management judgment and high estimation uncertainty as it requires preparation of financial forecast and profitability projections which may result in different outcome scenarios; hence, may significantly affect the estimates made by management. Accordingly, we identified the recoverability of deferred tax assets as significant area of focus in our audit.

How the Matter was Addressed in the Audit

Our work included, among others, obtaining management's income projections based on its Internal Capital Adequacy Assessment Process document. Relative to this, we reviewed the appropriateness of management's assumptions underlying the recoverability of the deferred tax assets by comparing the forecasts to our expectations developed based on historical performance. We also considered the fact that the Group and the Parent Company have been utilizing the benefits of deferred tax assets since prior periods.

The relevant information relating to deferred tax assets are disclosed in Notes 2, 3 and 26 to the financial statements.

<u>Key audit matter we identified in our audit of the consolidated financial statements of the Group:</u>

Assessment of Goodwill Impairment

Description of the Matter

As of December 31, 2017, the balance of goodwill amounted to P268 million, which is included as part of the Other Resources account in the Group's statement of financial position. Under PFRS, goodwill, having indefinite useful life, is not subject to amortization but is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. This annual impairment test was significant to our audit because management's assessment process is complex and highly judgmental, and is based on significant assumptions, specifically on the identification of cash generating units (CGUs) where the goodwill is allocated and the future cash flows of that particular CGUs, which are affected by expected future market or economic conditions. Relative to this, the Group engaged a third party valuation specialist to assist them in assessing any impairment on the recognized goodwill. Management's significant assumptions include:

- RCBC Savings Bank, Inc. (RSB), the identified CGU on which the goodwill is allocated, will continue as a going concern;
- RSB will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support the business needs; and,
- RSB's performance forecasts for the next five years.

The Group's accounting policy on impairment of and disclosures about goodwill are included in Notes 2 and 15, respectively, to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures included, among others, evaluating the assumptions and methodologies used by management and its valuation specialist, particularly those relating to the forecasted revenue growth and profit margins of RSB by considering historical trends. In addition, our audit on the financial statements of RSB as of and for the year ended December 31, 2017 did not identify event or conditions that may cast significant doubt on RBS's ability to continue as a going concern.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 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 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 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 consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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. As discussed in Note 26 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) 15-2010 and RR 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 and RR 19-2011 require the supplementary information to be presented in the notes to financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Maria Isabel E. Comedia.

PUNONGBAYAN & ARAULLO

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

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 6616005, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 26, 2018

The engagement partner on the audits resulting in this independent auditors' report is Maria Isabel E. Comedia.

PUNONGBAYAN & ARAULLO

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

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 6616005, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 26, 2018

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2017		GROUP 2016		PARENT COMPANY 2017		PARENT COMPANY 2016	
RESOURCES									
CASH AND OTHER CASH ITEMS	9	**P**	**14,693**	P	15,176	**P**	**10,415**	P	11,000
DUE FROM BANGKO SENTRAL NG PILIPINAS	9		**58,801**		66,520		**47,186**		50,871
DUE FROM OTHER BANKS	9		**19,818**		25,293		**18,368**		24,109
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENT	9		**9,831**		7,889		**7,435**		4,931
TRADING AND INVESTMENT SECURITIES - Net	10		**72,932**		75,622		**58,133**		65,652
LOANS AND RECEIVABLES - Net	11		**354,243**		306,167		**265,791**		228,432
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES - Net	12		**417**		383		**19,018**		17,178
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13		**8,946**		8,876		**5,197**		5,192
INVESTMENT PROPERTIES - Net	14		**3,399**		3,229		**2,785**		2,816
DEFERRED TAX ASSETS	26		**1,896**		2,177		**942**		1,285
OTHER RESOURCES - Net	15		**9,012**		9,861		**6,306**		6,316
TOTAL RESOURCES		**P**	**553,988**	P	521,193	**P**	**441,576**	P	417,782

See Notes to Financial Statements.

	Notes	GROUP		PARENT COMPANY	
		2017	2016	**2017**	2016
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	**P 388,412**	P 353,077	**P 288,667**	P 260,165
BILLS PAYABLE	18	**43,967**	37,643	**36,600**	31,712
BONDS PAYABLE	19	**28,060**	41,595	**28,060**	41,595
SUBORDINATED DEBT	20	**9,968**	9,952	**9,968**	9,952
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	21	**4,185**	4,823	**3,218**	3,633
OTHER LIABILITIES	22	**12,369**	11,970	**8,134**	8,688
Total Liabilities		**486,961**	459,060	**374,647**	355,745
EQUITY	23				
Attributable to:					
Parent Company's Shareholders		**66,999**	62,107	**66,929**	62,037
Non-controlling Interests		**28**	26	**-**	-
		67,027	62,133	**66,929**	62,037
TOTAL LIABILITIES AND EQUITY		**P 553,988**	P 521,193	**P 441,576**	P 417,782

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		GROUP			PARENT COMPANY		
	Notes	**2017**	2016	2015	**2017**	2016	2015
INTEREST INCOME							
Loans and receivables	11	**P 21,956**	P 19,442	P 17,462	**P 15,081**	P 13,219	P 12,163
Trading and investment securities	10	**2,784**	3,269	3,880	**2,309**	2,927	3,455
Others	9, 24	**378**	426	178	**277**	383	145
		25,118	23,137	21,520	**17,667**	16,529	15,763
INTEREST EXPENSE							
Deposit liabilities	17	**3,959**	3,269	2,992	**2,389**	2,021	2,006
Bills payable and other borrowings	18, 19, 20, 24	**3,138**	4,161	2,951	**2,883**	3,945	2,832
		7,097	7,430	5,943	**5,272**	5,966	4,838
NET INTEREST INCOME		**18,021**	15,707	15,577	**12,395**	10,563	10,925
IMPAIRMENT LOSSES - Net	16	**2,155**	1,770	2,350	**1,164**	856	1,150
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**15,866**	13,937	13,227	**11,231**	9,707	9,775
OTHER OPERATING INCOME							
Service fees and commissions	2	**3,138**	3,196	3,473	**1,985**	1,762	1,793
Trading and securities gains - net	2, 10	**900**	1,619	1,327	**664**	1,663	1,232
Foreign exchange gains - net	2, 19	**798**	276	260	**773**	244	212
Trust fees	27	**279**	294	286	**226**	243	232
Share in net earnings of subsidiaries and associates	12	**92**	131	93	**2,110**	1,500	1,535
Miscellaneous - net	25	**1,893**	1,598	1,216	**1,129**	1,084	839
		7,100	7,114	6,655	**6,887**	6,496	5,843
TOTAL OPERATING INCOME *(Forward)*		**P 22,966**	P 21,051	P 19,882	**P 18,118**	P 16,203	P 15,618

See Notes to Financial Statements.

	Notes	GROUP 2017	GROUP 2016	GROUP 2015	PARENT COMPANY 2017	PARENT COMPANY 2016	PARENT COMPANY 2015
TOTAL OPERATING INCOME		**P 22,966**	P 21,051	P 19,882	**P 18,118**	P 16,203	P 15,618
OTHER OPERATING EXPENSES							
Employee benefits	24	**6,037**	5,408	4,731	**4,211**	3,666	3,190
Occupancy and equipment-related	28, 29	**3,165**	2,871	2,607	**2,473**	2,180	1,917
Depreciation and amortization	13, 14, 15	**1,914**	1,766	1,611	**1,085**	985	1,030
Taxes and licenses	14	**1,821**	1,840	1,437	**1,289**	1,287	938
Miscellaneous	25	**4,878**	5,470	4,675	**4,055**	4,556	3,396
		17,815	17,355	15,061	**13,113**	12,674	10,471
PROFIT BEFORE TAX		**5,151**	3,696	4,821	**5,005**	3,529	5,147
TAX EXPENSE (INCOME)	26	**841**	(174)	(307)	**697**	(339)	18
NET PROFIT		**P 4,310**	P 3,870	P 5,128	**P 4,308**	P 3,868	P 5,129
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 4,308**	P 3,868	P 5,129			
NON-CONTROLLING INTERESTS		**2**	2	(1)			
		P 4,310	P 3,870	P 5,128			
Earnings Per Share							
Basic and diluted	30	**P 3.08**	P 2.76	P 3.07			

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2017**	2016	2015	**2017**	2016	2015
NET PROFIT		**P 4,310**	P 3,870	P 5,128	**P 4,308**	P 3,868	P 5,129
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Actuarial gains (losses) on defined benefit plan	24	**1,510**	(325)	(1,045)	**1,491**	(349)	(987)
Fair value gains (losses) on financial assets at fair value through other comprehensive income	10, 23	**(156)**	1,442	(140)	**(269)**	1,395	(220)
		1,354	1,117	(1,185)	**1,222**	1,046	(1,207)
Share in other comprehensive income of the subsidiaries and associates:							
Actuarial gains (losses) on defined benefit plan	12, 24	**4**	-	1	**23**	24	(57)
Fair value gains on financial assets at fair value through other comprehensive income	10, 12, 23	**-**	-	-	**113**	47	77
		4	-	1	**136**	71	20
		1,358	1,117	(1,184)	**1,358**	1,117	(1,187)
Items that will be reclassified subsequently to profit or loss							
Share in other comprehensive income (loss) of the subsidiaries - Translation adjustments on foreign operations	12, 23	**(1)**	25	(10)	**(1)**	25	(10)
Total Other Comprehensive Income (Loss)	23	**1,357**	1,142	(1,194)	**1,357**	1,142	(1,197)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 5,667**	P 5,012	P 3,934	**P 5,665**	P 5,010	P 3,932
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 5,665**	P 5,010	P 3,932			
NON-CONTROLLING INTERESTS		**2**	2	2			
		P 5,667	P 5,012	P 3,934			

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Millions of Philippine Pesos)

		GROUP										
		ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS										
	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2017		P 13,999	P 3	P 22,635	P -	P 621	P 415	(P 97)	P 24,531	P 62,107	P 26	P 62,133
Transaction with owners	23											
Cash dividends				-	-	-	-	-	(773)	(773)		(773)
Total comprehensive income for the year	23	-	-		-	1,357	-	-	4,308	5,665	2	5,667
Transfer of fair value gains on financial assets												
at fair value through other comprehensive income to surplus	10, 23	-	-	-	-	(4)	-	-	4	-		-
Transfer from surplus to reserve for trust business	27	-			-	-	21		(21)	-		-
		-	-		-	1,353	21	-	3,518	4,892	2	4,894
Balance at December 31, 2017		P 13,999	P 3	P 22,635	P -	P 1,974	P 436	(P 97)	P 28,049	P 66,999	P 28	P 67,027
Balance at January 1, 2016		P 13,999	P 3	P 22,635	P	(P 518)	P 388	(P 97)	P 21,695	P 58,105	P 24	P 58,129
Transaction with owners	23											
Cash dividends			-	-	-		-	-	(1,008)	(1,008)	-	(1,008)
Total comprehensive income for the year	23		-	-	-	1,142	-	-	3,868	5,010	2	5,012
Transfer of fair value gains on financial assets												
at fair value through other comprehensive income to surplus	10, 23	-	-	-	-	(3)		-	3	-	-	
Transfer from surplus to reserve for trust business	27		-		-	-	27	-	(27)	-	-	-
		-			-	1,139	27		2,836	4,002	2	4,004
Balance at December 31, 2016		P 13,999	P 3	P 22,635	P -	P 621	P 415	(P 97)	P 24,531	P 62,107	P 26	P 62,133
Balance at January 1, 2015		P 12,757	P 3	P 16,148	P 4,883	P 682	P 366	(P 97)	P 18,367	P 53,109	P 22	P 53,131
Transactions with owners	23											
Issuance of common shares during the year		1,242		6,487	-		-	-	-	7,729	-	7,729
Redemption of hybrid perpetual securities			-	-	(4,883)			-	(723)	(5,606)	-	(5,606)
Cash dividends				-	-		-	-	(1,059)	(1,059)	-	(1,059)
Total transactions with owners		1,242	-	6,487	(4,883)		-	-	(1,782)	1,064	-	1,064
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,197)			5,129	3,932	2	3,934
Transfer of fair value gains on financial assets												
at fair value through other comprehensive income to surplus	10, 23	-				(3)			3		-	
Transfer from surplus to reserve for trust business	27		-	-	-		22	-	(22)	-	-	
		1,242	-	6,487	(4,883)	(1,200)	22		3,328	4,996	2	4,998
Balance at December 31, 2015		P 13,999	P 3	P 22,635	P -	(P 518)	P 388	(P 97)	P 21,695	P 58,105	P 24	P 58,129

See Notes to Financial Statements.

		PARENT COMPANY							
	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	SURPLUS	TOTAL EQUITY
Balance at January 1, 2017		P 13,999	P 3	P 22,635	P -	P 621	P 378	P 24,401	P 62,037
Transaction with owners	23								
Cash dividends		-	-	-		-	-	(773)	(773)
Total comprehensive income for the year	23	-	-	-			-		
Transfer of fair value gains on financial assets						1,357	-	4,308	5,665
at fair value through other comprehensive income to surplus	10, 23	-		-	-	(4)		4	-
Transfer from surplus to reserve for trust business	27		-	-	-	-	16	(16)	-
		-		-	-	1,353	16	3,523	4,892
Balance at December 31, 2017		P 13,999	P 3	P 22,635	P -	P 1,974	P 394	P 27,924	P 66,929
Balance at January 1, 2016		P 13,999	P 3	P 22,635	P	(P 518)	P 356	P 21,560	P 58,035
Transaction with owners	23								
Cash dividends		-	-	-	-	-	-	(1,008)	(1,008)
Total comprehensive income for the year	23	-		-	-	1,142	-	3,868	5,010
Transfer of fair value gains on financial assets									
at fair value through other comprehensive income to surplus	10, 23	-	-	-		(3)	-	3	-
Transfer from surplus to reserve for trust business	27			-	-	-	22	(22)	
		-				1,139	22	2,841	4,002
Balance at December 31, 2016		P 13,999	P 3	P 22,635	P -	P 621	P 378	P 24,401	P 62,037
Balance at January 1, 2015		P 12,757	P 3	P 16,148	P 4,883	P 682	P 341	P 18,225	P 53,039
Transactions with owners	23								
Issuance of common shares during the year		1,242	-	6,487	-	-	-	-	7,729
Redemption of hybrid perpetual securities			-	-	(4,883)		-	(723)	(5,606)
Cash dividends		-	-	-	-	-	-	(1,059)	(1,059)
Total transactions with owners		1,242		6,487	(4,883)	-	-	(1,782)	1,064
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,197)		5,129	3,932
Transfer of fair value gains on financial assets									
at fair value through other comprehensive income to surplus	10, 23	-	-	-	-	(3)		3	
Transfer from surplus to reserve for trust business	27	-	-		-		15	(15)	
		1,242		6,487	(4,883)	(1,200)	15	3,335	4,996
Balance at December 31, 2015		P 13,999	P 3	P 22,635	P -	(P 518)	P 356	P 21,560	P 58,035

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2017	GROUP 2016	GROUP 2015	PARENT COMPANY 2017	PARENT COMPANY 2016	PARENT COMPANY 2015
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 5,151	P 3,696	P 4,821	P 5,005	P 3,529	P 5,147
Adjustments for:							
Interest income		(25,118)	(23,137)	(21,520)	(17,667)	(16,529)	(15,763)
Interest received		24,809	23,570	21,149	17,536	16,962	15,593
Interest paid		(7,240)	(7,253)	(5,861)	(5,087)	(5,889)	(4,720)
Interest expense		7,097	7,430	5,943	5,272	5,966	4,838
Impairment losses - net	16	2,155	1,770	2,350	1,164	856	1,150
Depreciation and amortization	13, 14, 15	1,914	1,766	1,611	1,085	985	1,030
Dividend income	25	(234)	(449)	(237)	(196)	(307)	(87)
Share in net earnings of subsidiaries and associates	12	(92)	(131)	(93)	(2,112)	(1,500)	(1,535)
Gains on assets sold	14, 25	(441)	(120)	(281)	(378)	(139)	(162)
Operating profit before working capital changes		8,001	7,142	7,882	4,622	3,934	5,491
Decrease (increase) in financial assets at fair value through profit and loss		10,488	(12,967)	11,346	10,522	(13,082)	11,069
Decrease (increase) in financial assets at fair value through other comprehensive income		316	(1,471)	(493)	139	48	(339)
Decrease (increase) in loans and receivables		(50,172)	(6,748)	(39,323)	(38,690)	4,666	(27,179)
Decrease (increase) in investment properties		(615)	(212)	1,502	(12)	15	408
Decrease (increase) in other resources		1,693	(528)	(1,469)	285	354	(96)
Increase (decrease) in deposit liabilities		35,335	10,715	26,601	28,502	(3,905)	16,048
Increase (decrease) in accrued interest, taxes and other expenses		(593)	338	(89)	(292)	179	(15)
Increase (decrease) in other liabilities		1,911	(256)	232	950	(1,385)	(93)
Cash generated from (used in) operations		6,364	(3,987)	6,189	6,026	(9,176)	5,294
Cash paid for taxes		(605)	(574)	(602)	(477)	(501)	(540)
Net Cash From (Used in) Operating Activities		5,759	(4,561)	5,587	5,549	(9,677)	4,754
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from disposal and maturity of securities at amortized cost		25,296	61,288	42,563	24,251	57,087	42,772
Additional investments in securities at amortized cost		(33,570)	(11,271)	(63,991)	(27,549)	(10,473)	(63,972)
Acquisitions of bank premises, furniture, fixtures, and equipment	13	(1,521)	(2,782)	(1,961)	(899)	(1,129)	(1,411)
Acquisitions of intangible assets	15	(304)	(294)	(1,348)	(267)	(270)	(1,243)
Cash dividends received	12, 25	296	560	313	600	307	766
Proceeds from disposals of bank premises, furniture, fixtures and equipment	13	203	834	461	102	344	242
Additional investments in subsidiaries and associates	12	-	-	-	-	-	(750)
Net Cash From (Used in) Investing Activities		(9,600)	48,335	(23,963)	(3,762)	45,866	(23,596)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from availments of bills payable	18, 32	20,561	33,668	47,068	15,477	31,325	46,442
Payments of bills payable	18, 32	(14,472)	(45,429)	(37,463)	(10,788)	(45,429)	(37,463)
Redemption of bonds payable	19, 32	(13,687)			(13,687)	-	-
Dividends paid	23	(773)	(1,008)	(1,059)	(773)	(1,008)	(1,059)
Issuance of bonds payable	19, 32	-	-	15,878	-		15,878
Issuance of common stock		-	-	7,729	-	-	7,729
Redemption of hybrid perpetual securities		-		(5,173)	-		(5,173)
Net Cash From (Used in) Financing Activities		(8,371)	(12,769)	26,980	(9,771)	(15,112)	26,354
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Forward)*		(P 12,212)	P 31,005	P 8,604	(P 7,984)	P 21,077	P 7,512

See Notes to Financial Statements.

	Note	GROUP 2017	GROUP 2016	GROUP 2015	PARENT COMPANY 2017	PARENT COMPANY 2016	PARENT COMPANY 2015
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(P 12,212)**	P 31,005	P 8,604	**(P 7,984)**	P 21,077	P 7,512
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	9	**15,176**	14,070	13,085	**11,000**	10,127	9,539
Due from Bangko Sentral ng Pilipinas	9	**66,520**	50,617	46,099	**50,871**	42,026	37,763
Due from other banks	9	**25,293**	19,701	16,600	**24,109**	18,196	15,535
Loans arising from reverse repurchase agreement	9	**7,889**		-	**4,931**		
Interbank loans receivable	10	**515**		-	**515**		-
		115,393	84,388	75,784	**91,426**	70,349	62,837
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	9	**14,693**	15,176	14,070	**10,415**	11,000	10,127
Due from Bangko Sentral ng Pilipinas	9	**58,801**	66,520	50,617	**47,186**	50,871	42,026
Due from other banks	9	**19,818**	25,293	19,701	**18,368**	24,109	18,196
Loans arising from reverse repurchase agreement	9	**9,831**	7,889		**7,435**	4,931	-
Interbank loans receivable	10	**38**	515		**38**	515	-
		P 103,181	P 115,393	P 84,388	**P 83,442**	P 91,426	P 70,349

See Notes to Financial Statements.

(Amounts in Millions of Philippine Pesos, Except Share and Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivatives products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group's and the Parent Company's banking network within and outside the Philippines as of December 31 follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Automated teller machines (ATMs)	**1,562**	1,488	**1,103**	1,047
Branches	**473**	446	**306**	281
Extension offices	**35**	35	**25**	25

RCBC is 42.45% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

The Parent Company's registered address, which is also its principal office, is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates:

Subsidiaries/Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership 2017	2016
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Consumer and retail banking		**100.00**	100.00
RCBC Forex Brokers Corporation (RCBC Forex)	Foreign exchange dealing		**100.00**	100.00
RCBC Telemoney Europe (RCBC Telemoney)	Remittance		**100.00**	100.00
RCBC North America, Inc. (RCBC North America)	Remittance	(a)	**100.00**	100.00
RCBC International Finance Limited (RCBC IFL)	Remittance		**100.00**	100.00
RCBC Investment Ltd.	Remittance	(b)	**100.00**	100.00
RCBC Capital Corporation (RCBC Capital)	Investment house		**99.96**	99.96
RCBC Securities, Inc. (RSI)	Securities brokerage and dealing	(c)	**99.96**	99.96
RCBC Bankard Services Corporation (RBSC)	Credit card management	(c)	**99.96**	99.96
RCBC-JPL Holding Company, Inc. (RCBC JPL)	Property holding		**99.41**	99.39
Merchants Savings and Loan Association, Inc. (Rizal Microbank)	Thrift banking and microfinance		**98.03**	98.03
RCBC Leasing and Finance Corporation (RCBC LFC)	Financial leasing		**97.79**	97.79
RCBC Rental Corporation	Property leasing	(d)	**97.79**	97.79
Special Purpose Companies (SPCs):	Real estate buying and selling	(e)		
Best Value Property and Development Corporation (Best Value)			**100.00**	100.00
Cajel Realty Corporation (Cajel)			**100.00**	100.00
Crescent Park Property and Development Corporation (Crescent Park)			**100.00**	100.00
Crestview Properties Development Corporation (Crestview)			**100.00**	100.00
Eight Hills Property and Development Corporation (Eight Hills)			**100.00**	100.00
Gold Place Properties Development Corporation (Gold Place)			**100.00**	100.00
Goldpath Properties Development Corporation (Goldpath)			**100.00**	100.00
Greatwings Properties Development Corporation (Greatwings)			**100.00**	100.00
Lifeway Property and Development Corporation (Lifeway)			**100.00**	100.00
Niceview Property and Development Corporation (Niceview)			**100.00**	100.00
Niyog Property Holdings, Inc. (NPHI)		(f)	**100.00**	100.00
Princeway Properties Development Corporation (Princeway)			**100.00**	100.00
Top Place Properties Development Corporation (Top Place)			**100.00**	100.00

Subsidiaries/Associates	Line of Business	Effective Percentage of Ownership 2017	2016
Associates:			
YGC Corporate Services, Inc. (YCS)	Support services for YGC	**40.00**	40.00
Luisita Industrial Park Co. (LIPC)	Real estate buying, developing, selling and rental	**35.00**	35.00
Honda Cars Phils., Inc. (HCPI)	Sale of motor vehicles	**12.88**	12.88

Except for RCBC Telemoney (Italy), RCBC North America (USA), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney and RCBC North America were operational only until March 1, 2016 and March 31, 2014, respectively.

Explanatory Notes:

(a) The Parent Company has 83.97% direct ownership interest and 16.03% indirect ownership interest through RCBC IFL.
(b) A wholly-owned subsidiary of RCBC IFL.
(c) Wholly-owned subsidiaries of RCBC Capital.
(d) A wholly-owned subsidiary of RCBC LFC.
(e) Except for NPHI, the SPCs are wholly-owned subsidiaries of RSB; the SPCs, except for NPHI and Cajel, will be liquidated in pursuant to BSP recommendation and upon receipt of necessary regulatory clearance (see Note 15.1).
(f) The Parent Company has 48.11% direct ownership interest and 51.89% indirect ownership interest through RSB.

1.3 Approval of Financial Statements

The consolidated financial statements of RCBC and subsidiaries and the separate financial statements of RCBC as of and for the year ended December 31, 2017 (including the comparatives as of December 31, 2016 and for the years ended December 31, 2016 and 2015) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 26, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The 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 consolidated financial statements of the Group and the separate financial statements of the Parent Company 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 (IASB), and approved by Philippine Board of Accountancy.

These 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 Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have 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.

The Group and the Parent Company made a restrospective reclassification in their statements of profit or loss for the year ended December 31, 2016 by transferring P32 services fees reported within Other Operating Income, from Miscellaneous account to Service Fees and Commissions account, to conform with the current presentation.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.18). All amounts are in millions, except per share data or when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Group

The Group adopted for the first time all the amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017 as follows:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014 - 2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below are the relevant information about these amendments and improvements.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows and non-cash changes. They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities and to apply its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

Management has applied these amendments in the current year and has not disclosed comparative figures as allowed by the transitional provisions.

The Group's liabilities arising from financing activities include bills payable, bonds payable and subordinated debt. The reconciliation between the opening and closing balances of these liabilities arising from financing activities are disclosed in Note 32.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below its cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments has no impact on the Group's financial statements as the Group already assesses the sufficiency of future taxable profit in a way that is consistent with these amendments.

(iii) Annual improvements to PFRS (2014 - 2016 Cycle) on PFRS 12, *Disclosure of Interests in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale*. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The Group has interests in certain SPCs with carrying amount of the net investments presented and classified as assets held-for-sale and disposal group (see Note 15). The Group has not been presenting summarized financial information of these SPCs which is consistent with the amendments.

(b) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2017, 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 Group's financial statements:

(i) PAS 40 (Amendments), *Investment Property – Transfers of Investment Property* (effective from January 1, 2018). The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments also provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions – herein referred to as PFRS 9). In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Group on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement for eligible debt securities; and,

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

Based on an assessment and comprehensive study of the Group's financial assets and financial liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the significant impact of PFRS 9 (2014) on the financial statements as follows:

- Debt securities held for both collecting contractual cash flows solely for payment of principal and interest (SPPI) and selling are designated by the Group to be classified at as fair value through other comprehensive income (FVOCI). Financial asset at FVOCI are measured at fair value, with fair value changes and realized gain or loss on sale directly recognized in other comprehensive income. Upon derecognition of debt securities under FVOCI, the cumulative gains or losses previously recognized in other comprehensive income shall be reclassified from equity to profit or loss. The Group has initially assessed that the application of the standard would result in reclassification of certain financial assets at FVPL to financial assets at FVOCI; hence, will affect the balance of the reported retained earnings and other comprehensive income at transition date.

- In applying the ECL methodology of PFRS 9 (2014), the Group initially assessed to use the loan loss provision methodology as allowed by the standard and as prescribed by the BSP. On the other hand, ECL on government bonds and corporate bonds currently classified as financial asset at amortized cost shall be measured using the 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings. Management has assessed that the application of the ECL model will result in an increase in the required allowance for impairment of certain financial instruments as at the beginning of the next reporting period and in impairment losses in that period as compared with the amount that would have been recognized under the impairment provisions of PAS 39.

(iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale or contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(iv) PFRS 15, *Revenue from Contracts with Customers*. This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in this standard is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Based on an assessment of the Group's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to its lending activities which generate interest income, service charges, and fees. Except for certain service charges and fees, substantial amount of the Bank's revenues are generated from financial instruments which are outside the scope of PFRS 15.

(v) Annual Improvements to PFRS 2014 - 2016 Cycle. Among the improvements, PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Measuring an Associate or Joint Venture at Fair Value* (effective from January 1, 2018) is relevant to the Group. The amendments clarify that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture.

(vi) IFRIC 22, *Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

(vii) PAS 28 (Amendments), *Investment in Associates – Long-term Interests in Associates and Joint Ventures* (effective from January 1, 2019). The amendments clarify that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendments further clarify that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of these new amendments in its financial statements.

(viii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the 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. Management is currently assessing the impact of these amendments in its financial statements.

(ix) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17, where lease payments are recognized as expense on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same with those applied in PAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, treatment of initial direct costs and lessor disclosures.

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

(x) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The 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 Group to consider the probability of the tax treatment being accepted by the tax 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 Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its financial statements.

(xi) Annual Improvements to PFRS 2015 - 2017 Cycle. Among the improvements effective January 1, 2019, the following are relevant to the Group but were initially assessed by management to have no material impact on the Group's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that when a specific borrowing remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of an entity's general borrowings used in calculating the capitalization rate for capitalization purposes.

- PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Earnings of Subsidiaries and Associates account in the statement of profit or loss. These changes include subsequent depreciation, amortization, impairment and fair value adjustments of assets and liabilities. Dividends received are accounted for as reduction in the carrying value of the investment.

Changes resulting from other comprehensive income of the subsidiaries or items that have been directly recognized in the subsidiaries' equity are recognized in other comprehensive income or equity of the Parent Company as applicable. However, when the Parent Company's share in losses of subsidiaries equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated to the extent of the Parent Company's interest in the subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Parent Company.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) *Purchase method* – involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

(ii) *Pooling of interest method* – is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in a separate reserve account under equity.

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings of Subsidiaries and Associates account in the Group's statement of profit or loss. These changes include subsequent depreciation, amortization, impairment, and fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity of the Group as applicable. However, when the Group's share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

(c) *Interest in Jointly Controlled Operations*

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) *Transactions with Non-controlling Interests*

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to NCI result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the NCI component is shown as part of the consolidated statement of changes in equity.

In the Parent Company's financial statements, impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered (see Note 2.19).

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the Group 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

Under PFRS 9, 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. The classification and measurement of financial assets are described below.

(i) Financial Assets at Amortized Cost

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

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; 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.

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreement, Investment securities at amortized cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances of Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreement, and Interbank loans receivables (part of Loans and Receivables). 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 Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2017 and 2016, the Group has not made such designation.

(ii) Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVPL at initial recognition, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVPL include government securities, corporate bonds, equity securities, which are held for trading purposes or designated as at FVPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

(iii) Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

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

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Group's right to receive dividends is established in accordance with PAS 18 unless the dividends clearly represent recovery of a part of the cost of the investment.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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 Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or,

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) Financial Assets Carried at Amortized Cost

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

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

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

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

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

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

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

When a loan or receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off are charged against the amount of impairment losses in profit or loss.

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

(ii) Financial Assets Carried at Fair Value Through Other Comprehensive Income

For securities classified as FVOCI, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. If, in a subsequent period, the fair value of such debt instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) Derecognition of Financial Assets

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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are categorized as Financial Assets at FVPL which are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

2.7 Offsetting Financial Instruments

Financial assets and 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 offset 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 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.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, the related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, 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 method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) 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, amortization and any 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.

2.9 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are neither held by the Group for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

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 its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in Miscellaneous Income under Other Operating Income account in the year of retirement or disposal.

2.10 Assets Held-for-Sale and Disposal Group

Assets held-for-sale and disposal group, which are presented as part of Other Resources acount, include real and other properties acquired through repossession, foreclosure or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell.

Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous Income (Expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment (see Note 2.19). Goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account, represents the right given to RSI, a subsidiary engaged in stock brokerage, to preserve its access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in value (see Note 2.19).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.12 Other Resources

Other resources (excluding items classified as intangible assets) pertain to other assets controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

2.13 Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, bonds payable, subordinated debt, accrued interest and other expenses, and other liabilities (except tax-related payables, post-employment defined benefit obligation and deferred income) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable, bonds payable and subordinated debt are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities represent the cumulative changes in the net fair value losses arising from the Group's currency forward transactions and interest rate swaps.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.14 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 (e.g., legal dispute or onerous contracts).

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 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 Group 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 Group 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.

The Parent Company offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.15 Equity

Preferred and common stock represent the nominal value of shares of stock that have been issued.

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares of stock are deducted from capital paid in excess of par, net of any related income tax benefits.

Hybrid perpetual securities reflect the net proceeds from the issuance of non-cumulative step-up callable perpetual securities.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

(b) Reserves on remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest);

(c) Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company; and,

(d) Share in other comprehensive income or loss of subsidiaries and associates.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company and a subsidiary to carry to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group and the result of the redemption of the preferred stocks of RSB's subsidiaries. This also includes the excess of cost of investment over the net identifiable assets of an acquired subsidiary under the pooling of interest method.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and comprehensive income and within equity in the consolidated statement of financial position and changes in equity.

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and, the costs incurred or to be incurred can be measured reliably.

The following specific recognition criteria must also be met before a revenue or expense is recognized:

(a) Interest Income and Expenses

These are recognized in the statement of profit or loss for all financial instruments measured at amortized cost and interest-bearing financial assets using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Trading and Securities Gains (Losses)

These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains as a result of the mark-to-market valuation of investment securities classified as FVPL.

(c) Service Fees and Commissions

These are recognized as follows:

(i) Finance charges – are recognized on credit card revolving accounts, other than those accounts classified as installment, as income as long as those outstanding account balances are not 90 days and over past due. Finance charges on installment accounts, and first year and renewal membership fees are recognized as income when billed to cardholders. Purchases by cardholders which are collected on installment are recorded at the cost of the items purchased.

(ii) Discounts earned, net of interchange costs – are recognized as income upon presentation by member establishments of charges arising from RCBC Bankard and non-RCBC Bankard (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RCBC Bankard's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminal.

(iii) Late payment fees – are billed on delinquent credit card receivable balances which are at most 179 days past due. These late payment fees are recognized as income upon collection.

(iv) Loan syndication fees – are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement.

(v) Service charges and penalties – are recognized only upon collection or accrued where there is a reasonable degree of certainty as to its collectibility.

(vi) Underwriting fees and commissions – are recorded when services for underwriting, arranging or brokering has been rendered.

(d) Gains on Assets Sold

Gains on assets sold arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale, and are recognized when the risks and rewards of ownership of the assets are transferred to the buyer, when the Group does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectibility of the entire sales price is reasonably assured. Gains on assets sold are included as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

Costs and expenses are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.21).

2.17 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. 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.

(b) *Group as Lessor*

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

(d) there is a substantial change to the asset.

2.18 Foreign Currency Transactions and Translations

(a) *Transactions and Balances*

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVPL, are reported as part of fair value gain or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the PDSCR prevailing at the end of each reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVPL and financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a component of equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

2.19 Impairment of Non-financial Assets

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment, investment properties, and other resources (including intangible assets) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use and goodwill are tested for impairment at least annually.

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

Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading rights) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount 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 CGU 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 Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life and goodwill, 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 CGU's recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized and measured as follows:

(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 Group, 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 Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

The liability recognized in the statement of financial position for defined benefit post-employment 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 for expected benefit payments using a discount rate derived from the interest rates of zero-coupon government bonds as published by the Philippine Dealing & Exchange Corp. (PDEx), 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and 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. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of 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 Other Interest Income or Expense account in the statement of profit or loss.

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits, and, (ii) 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) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) 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 included in the Accrued Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expense 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 the 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 completed.

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.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the 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 recognized by the entities under the Group are offset if they have 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.

2.23 Related Party Relationships and Transactions

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

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

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

2.24 Earnings and Dilutive Earning Per Share

Basic earnings per share (EPS) is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

Diluted EPS is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted EPS is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased the instruments.

2.25 Trust and Fiduciary Activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

2.26 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group'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 Group'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 Policies

In the process of applying the Group'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) Evaluation of Business Model Applied in Managing Financial Instruments

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

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

(b) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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 Group 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 Group 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, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group 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 Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(c) Evaluation of Impairment of Financial Assets at FVOCI

The determination when a financial asset at FVOCI is other-than-temporarily impaired requires the Group to make judgment. In making this judgment with respect to the Group's outstanding financial assets at FVOCI as of December 31, 2017 (see Note 10.2), the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology, and operational and financing cash flow. For investments issued by counterparty under bankruptcy, the Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

(d) Distinction Between Investment Properties and Owner-occupied Properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. 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 Group'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 Group has certain building which comprise a portion that is held for rental and other portion is used for operations which were classified by the Group as Investment Property or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(e) Distinction Between Operating and Finance Leases

The Group has entered into various lease agreements either as a lessor or a lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities. As of December 31, 2017 and 2016, most of the Group's lease arrangements qualify as operating leases except for the various lease agreements of RCBC LFC which are accounted for under finance lease.

(f) Classification and Determination of Fair Value of Acquired Properties

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale and Disposal Group classified under Other Resources if the Group expects that the properties will be recovered through sale rather than use, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Group determines the fair value of acquired properties through internal and external appraisal depending on the Group's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(g) Assessment of Significant Influence on HCPI in which the Group and Parent Company Holds Less than 20% Ownership

The management considers that the Group and the Parent Company has significant influence on HCPI even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the Group's and the Parent Company's rights to commit and undertake to vote, and to regulate the conduct of voting and the relationship between them with respect to their exercise of their voting rights (see Note 12.2).

(h) 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 2.14 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group's and the Parent Company's legal cases and are based upon the analysis of probable results. Although the Group does not believe that its on-going proceedings as disclosed in Note 29 will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

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 each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Estimation of Impairment Losses on Loans and Receivables and Investment Securities at Amortized Cost

The Group reviews its loans and receivables portfolio to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Moreover, the Group holds debt securities measured at amortized cost as of December 31, 2017 and 2016. The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of the Group's and the Parent Company's loans and receivables and the analysis of the allowance for impairment on such financial assets are shown in Note 11 while the information about the debt securities measured at amortized cost is disclosed in Note 10.

(b) *Determination of Fair Value Measurement for Financial Assets at FVPL and FVOCI*

The Group carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 7.2).

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss and other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and the Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Computer Software, Branch Licenses and Trading Rights*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, 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 these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's branch licenses and trading rights were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill and branch licenses are analyzed in Note 15. Based on management's assessment as of December 31, 2017 and 2016, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group 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. The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2017 and 2016 are disclosed in Note 26.1.

(e) Estimation of Impairment Losses of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(f) Determination of Fair Value of Investment Properties

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

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 key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) Valuation of Post-employment Defined Benefits

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

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group'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.

A committee system is a fundamental part of the Group's process of managing risk. The following four committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the Board may entrust to it for action in between Board meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar 1 of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit Committee, which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Parent Company than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorses transactions to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) and ensures compliance thereof. The Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of officers and staff are conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads including the President of the major subsidiary, RSB, meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT below the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires board approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Management Committee (AMLCom) was created through an order of the Senior Management Committee on June 24, 2002, for the evaluation of the suspicious transaction reports (STR) reported by different units before submission to the Anti-Money Laundering Council (AMLC). The AMLCom assists the BOD in implementing the Group's MLPP in order to ensure compliance with BSP rules and regulations relating to the prevention of money laundering and terrorist financing.

  The AMLCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Operational Risk Management Group, Legal Affairs Division as members, and AML Division as the Rapporteur. The AML Division, through the Chief Compliance Officer, reports to the Audit and Compliance Committee and to the AML Board Committee its monthly activities including the AMLCom meetings.

The Parent Company established a Corporate Risk Management Services (CRISMS) Group, headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile. In 2016, CRISMS was divided into two sub-groups, the Business Risk Group (BRG) and the Operational Risk Management Group (ORMG), for a more focused and dedicated management of risks. CRISMS is independent of all risk-taking business segments and reports directly to the BOD's ROC. It participates in the CRECOL and ALCO meetings.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

It is the Group'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 and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group 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 Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes (CLNs) and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Limited User Authority (Type 3). In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps.

4.2 Liquidity Risk

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

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

The Group'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 Group'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 gap analyses as of December 31, 2017 and 2016 are presented below.

	Group 2017					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
Resources:						
Cash and cash equivalents	P 40,867	P 691	P 1,676	P 581	P 59,366	P 103,181
Investments - net	17,506	1,969	14,818	32,915	6,141	73,349
Loans and receivables - net	33,508	62,507	105,486	83,195	69,509	354,205
Other resources - net	9,027	566	512	38	13,110	23,253
Total resources	100,908	65,733	122,492	116,729	148,126	553,988
Liabilities:						
Deposit liabilities	62,028	9,867	11,234	2,505	302,778	388,412
Bills payable	18,538	15,303	6,379	1,499	2,248	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	9,968	-	-	9,968
Other liabilities	9,370	69	-	-	7,115	16,554
Total liabilities	89,936	25,239	55,641	4,004	312,141	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	89,936	25,239	55,641	4,004	379,168	553,988
On-book gap	10,972	40,494	66,851	112,725	(231,042)	-
Cumulative on-book gap	10,972	51,466	118,317	231,042	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	10,175	-	-	-	-	10,175
Off-book gap	(206)	-	-	-	-	(206)
Cumulative off-book gap	(206)	(206)	(206)	(206)	(206)	-
Periodic gap	**10,766**	**40,494**	**66,851**	**112,725**	**(231,042)**	**(206)**
Cumulative total gap	**P 10,766**	**P 51,260**	**P 118,111**	**P 230,836**	**(P 206)**	**P -**

	Group 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 47,381	P -	P -	P -	P 68,012	P 115,393
Investments - net	18,729	4,683	9,699	37,347	5,547	76,005
Loans and receivables - net	26,063	52,035	83,224	88,427	55,903	305,652
Other resources - net	7,305	232	1,063	34	15,509	24,143
Total resources	99,478	56,950	93,986	125,808	144,971	521,193
Liabilities:						
Deposit liabilities	51,586	15,147	10,523	-	275,821	353,077
Bills payable	9,552	5,628	20,970	1,493	-	37,643
Bonds payable	13,673	-	27,922	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	8,260	24	-	-	8,509	16,793
Total liabilities	83,071	20,799	69,367	1,493	284,330	459,060
Equity	-	-	-	-	62,133	62,133
Total liabilities and equity	83,071	20,799	69,367	1,493	346,463	521,193
On-book gap	16,407	36,151	24,619	124,315	(201,492)	-
Cumulative on-book gap	16,407	52,558	77,177	201,492	-	-
Contingent resources	14,727	2,032	2,138	-	-	18,897
Contingent liabilities	21,275	2,032	2,138	-	-	25,445
Off-book gap	(6,548)	-	-	-	-	(6,548)
Cumulative off-book gap	(6,548)	(6,548)	(6,548)	(6,548)	(6,548)	-
Periodic gap	9,859	36,151	24,618	124,315	(201,492)	(6,548)
Cumulative total gap	P 9,859	P 46,010	P 70,629	P 194,944	(P 6,548)	P -

	Parent Company 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 34,050	P 673	P 1,441	P 501	P 46,777	P 83,442
Investments - net	14,288	507	11,903	46,207	4,246	77,151
Loans and receivables - net	24,958	46,996	62,684	74,279	56,836	265,753
Other resources - net	5,340	346	32	12	9,500	15,230
Total resources	78,636	48,522	76,060	120,999	117,359	441,576
Liabilities:						
Deposit liabilities	49,147	4,402	10,041	2,505	222,572	288,667
Bills payable	16,009	13,906	5,185	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	9,968	-	-	9,968
Other liabilities	5,109	-	-	-	6,243	11,352
Total liabilities	70,265	18,308	53,254	4,005	228,815	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	70,265	18,308	53,254	4,005	295,744	441,576
On-book gap	8,371	30,214	22,806	116,994	(178,385)	-
Cumulative on-book gap	8,371	38,585	61,391	178,385	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	**8,371**	**30,214**	**22,806**	**116,994**	**(178,385)**	**-**
Cumulative total gap	**P 8,371**	**P 38,585**	**P 61,391**	**P 178,385**	**P -**	**P -**

	Parent Company 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 42,154	P -	P -	P -	P 49,272	P 91,426
Investments - net	16,044	3,378	8,099	33,477	21,832	82,830
Loans and receivables - net	14,756	38,062	47,400	77,804	49,895	227,917
Other resources - net	3,440	5	497	6	11,661	15,609
Total resources	76,394	41,445	55,996	111,287	132,660	417,782
Liabilities:						
Deposit liabilities	40,186	10,418	9,786	-	199,775	260,165
Bills payable	9,552	1,197	19,470	1,493	-	31,712
Bonds payable	13,673	-	27,922	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	4,698	-	-	-	7,623	12,321
Total liabilities	68,109	11,615	67,130	1,493	207,398	355,745
Equity	-	-	-	-	62,037	62,037
Total liabilities and equity	68,109	11,615	67,130	1,493	269,435	417,782
On-book gap	8,285	29,830	(11,134)	109,794	(136,775)	-
Cumulative on-book gap	8,285	38,115	26,981	136,775	-	-
Contingent resources	14,557	2,032	2,138	-	-	18,727
Contingent liabilities	20,911	2,032	2,138	-	-	25,081
Off-book gap	(6,354)	-	-	-	-	(6,354)
Cumulative off-book gap	(6,354)	(6,354)	(6,354)	(6,354)	(6,354)	-
Periodic gap	1,931	29,830	(11,135)	109,794	(136,775)	(6,354)
Cumulative total gap	P 1,931	P 31,761	P 20,627	P 130,421	(P 6,354)	P -

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company and RSB to maintain asset cover of 100% for foreign currency denominated liabilities of their respective FCDUs, of which 30% must be in liquid assets.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. The results of these liquidity stress simulations are reported monthly to the ROC.

4.3 Market Risk

The Group'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 risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. While the Parent Company and RSB use VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

  - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

– VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

– The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

– VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

– In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

– VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- Net Interest Income (NII)-at-Risk – more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Group employs a gap analysis to measure the interest rate sensitivity of its financial position (local and foreign currencies). As of a given reporting date, the interest rate gap analysis (see Note 4.3.2) measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Group's net interest income. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Group's net interest income. The rate movements assumed for measuring NII-at-Risk are consistent with a 99% confidence level with respect to historical rate volatility, assuming a one-year holding period. The Group considers the sum of NII-at-risk and the VaR of the FVPL and HTC portfolios as the Earnings-at-Risk (EaR) estimate.

- Capital-at-Risk (CaR) – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Group's economic value. The estimate, therefore, must consider the fair valuation effect of rate changes on non-trading positions. This includes both those positions with fair value changes against profit or loss, as well as those with fair value changes recognized directly in equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Group sets its CaR limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group			
	At December 31	Average	Maximum	Minimum
2017:				
Foreign currency risk	P 7	P 11	P 32	P 2
Interest rate risk	363	287	501	154
Overall	**P 370**	**P 298**	**P 533**	**P 156**
2016:				
Foreign currency risk	P 15	P 10	P 28	P 3
Interest rate risk	201	232	425	166
Overall	P 216	P 242	P 453	P 169
2015:				
Foreign currency risk	P 15	P 7	P 17	P 2
Interest rate risk	279	245	360	167
Overall	P 294	P 252	P 377	P 169

	Parent Company			
	At December 31	Average	Maximum	Minimum
2017:				
Foreign currency risk	P 7	P 11	P 31	P 2
Interest rate risk	147	125	277	40
Overall	**P 154**	**P 136**	**P 308**	**P 42**
2016:				
Foreign currency risk	P 15	P 9	P 27	P 3
Interest rate risk	83	102	217	70
Overall	P 98	P 111	P 244	P 73
2015:				
Foreign currency risk	P 15	P 7	P 16	P 2
Interest rate risk	118	114	190	64
Overall	P 133	P 121	P 206	P 66

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	**Philippine Pesos**	**Total**
2017:			
Resources:			
Cash and other cash items	P 1,029	P 13,664	P 14,693
Due from BSP	-	58,801	58,801
Due from other banks	17,922	1,896	19,818
Loans arising from reverse repurchase agreement	37	9,794	9,831
Financial assets at FVPL	1,144	6,447	7,591
Financial assets at FVOCI	51	5,312	5,363
Investment securities at amortized cost	50,044	9,934	59,978
Loans and receivables - net	54,940	299,303	354,243
Other resources	456	436	892
	P 125,623	**P 405,587**	**P 531,210**
Liabilities:			
Deposit liabilities	P 116,080	P 272,332	P 388,412
Bills payable	36,598	7,369	43,967
Bonds payable	28,060	-	28,060
Subordinated debt	-	9,968	9,968
Accrued interest and other expenses	838	3,091	3,929
Other liabilities	4,157	7,076	11,233
	P 185,773	**P 299,836**	**P 485,569**
2016:			
Resources:			
Cash and other cash items	P 5,242	P 9,934	P 15,176
Due from BSP	-	66,520	66,520
Due from other banks	23,775	1,518	25,293
Loans arising from reverse repurchase agreement	-	7,889	7,889
Financial assets at FVPL	15,679	2,400	18,079
Financial assets at FVOCI	1,744	3,935	5,679
Investment securities at amortized cost	40,542	11,322	51,864
Loans and receivables - net	55,148	251,019	306,167
Other resources	112	669	781
	P 142,242	P 355,206	P 497,448

	Group					
	Foreign Currencies		Philippine Pesos		Total	
2016:						
Liabilities:						
Deposit liabilities	P	92,284	P	260,793	P	353,077
Bills payable		31,709		5,934		37,643
Bonds payable		41,595		-		41,595
Subordinated debt		-		9,952		9,952
Accrued interest and other expenses		1,103		3,481		4,584
Other liabilities		802		8,081		8,883
	P	167,493	P	288,241	P	455,734

	Parent Company					
	Foreign Currencies		**Philippine Pesos**		**Total**	
2017:						
Resources:						
Cash and other cash items	P	868	P	9,547	P	10,415
Due from BSP		-		47,186		47,186
Due from other banks		17,839		529		18,368
Loans and receivables arising from reverse repurchase agreement		-		7,435		7,435
Financial assets at FVPL		1,145		5,408		6,553
Financial assets at FVOCI		15		3,424		3,439
Investment securities at amortized cost		45,507		2,634		48,141
Loans and receivables - net		54,845		210,946		265,791
Other resources		109		70		179
	P	**120,328**	**P**	**287,179**	**P**	**407,507**
Liabilities:						
Deposit liabilities	P	266,240	P	22,427	P	288,667
Bills payable		36,597		3		36,600
Bonds payable		28,060				28,060
Subordinated debt		-		9,968		9,968
Accrued interest and other expenses		796		2,213		3,009
Other liabilities		695		5,561		6,256
	P	**332,388**	**P**	**40,172**	**P**	**372,560**

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2016:			
Resources:			
Cash and other cash items	P 1,066	P 9,934	P 11,000
Due from BSP	-	50,871	50,871
Due from other banks	23,561	548	24,109
Loans and receivables arising from reverse repurchase agreement	-	4,931	4,931
Financial assets at FVPL	14,675	2,400	17,075
Financial assets at FVOCI	1,744	1,991	3,735
Investment securities at amortized cost	40,542	4,300	44,842
Loans and receivables - net	55,148	173,284	228,432
Other resources	89	377	466
	P 136,825	P 248,636	P 385,461
Liabilities:			
Deposit liabilities	P 65,959	P 194,206	P 260,165
Bills payable	31,709	3	31,712
Bonds payable	41,595	-	41,595
Subordinated debt	-	9,952	9,952
Accrued interest and other expenses	750	2,765	3,515
Other liabilities	802	5,292	6,094
	P 140,815	P 212,218	P 353,033

4.3.2 Interest Rate Risk

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between assets and liabilities. The Group follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. ALCO meets at least on a weekly basis to set rates for various assets and liabilities and trading products. ALCO employs interest rate gap analysis to measure the interest rate sensitivity of those financial instruments.

The interest rate gap analyses of assets and liabilities as of December 31 based on re-pricing maturities are shown below. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;
- Debt securities at amortized cost are bucketed based on their re-pricing profile;
- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,
- For assets and liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

	Group 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 31,016	P 261	P 484	P 80	P 71,340	P 103,181
Investments - net	9,712	1,969	14,818	32,915	13,935	73,349
Loans and receivables - net	163,355	40,828	87,289	31,778	30,955	354,205
Other resources - net	2,657	374	239	517	19,466	23,253
Total resources	206,740	43,432	102,830	65,290	135,696	553,988
Liabilities:						
Deposit liabilities	136,523	14,161	18,040	2,505	217,183	388,412
Bills payable	32,690	1,225	5,434	1,499	3,119	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	9,968	-	-	9,968
Other liabilities	1,006	69	-	-	15,479	16,554
Total liabilities	170,219	15,455	61,502	4,004	235,781	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	170,219	15,455	61,502	4,004	302,808	553,988
On-book gap	36,521	27,977	41,328	61,286	(167,112)	-
Cumulative on-book gap	36,521	64,498	105,826	167,112	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	9,977	-	-	-	198	10,175
Off-book gap	(8)	-	-		(198)	(206)
Cumulative off-book gap	(8)	(8)	(8)	(8)	(206)	-
Periodic gap	**36,513**	**27,977**	**41,328**	**61,286**	**(167,310)**	**(206)**
Cumulative total gap	**P 36,513**	**P 64,490**	**P 105,818**	**P 167,104**	**(P 206)**	**P -**

	Group 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 42,381	P -	P -	P -	P 73,012	P 115,393
Investments - net	3,359	4,512	9,196	37,347	21,591	76,005
Loans and receivables - net	142,139	32,138	74,189	33,388	23,798	305,652
Other resources - net	3,165	42	726	587	19,623	24,143
Total resources	191,044	36,692	84,111	71,322	138,024	521,193
Liabilities:						
Deposit liabilities	106,462	27,579	14,055	1	204,980	353,077
Bills payable	17,650	3,933	16,060	-	-	37,643
Bonds payable	13,673	-	27,922	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	625	24	-	-	16,144	16,793
Total liabilities	138,410	31,536	67,989	1	221,124	459,060
Equity	-	-	-	-	62,133	62,133
Total liabilities and equity	138,410	31,536	67,989	1	283,257	521,193
On-book gap	52,634	5,156	16,122	71,321	(145,233)	-
Cumulative on-book gap	52,634	57,790	73,912	145,233	-	-
Contingent resources	21,063	2,032	2,138	-	-	25,233
Contingent liabilities	21,093	2,032	2,138	-	182	25,445
Off-book gap	(30)	-	-	-	(182)	(212)
Cumulative off-book gap	(30)	(30)	(30)	(30)	(212)	-
Periodic gap	52,604	5,156	16,122	71,321	(145,415)	(212)
Cumulative total gap	P 52,604	P 57,760	P 73,882	P 145,203	(P 212)	P -

	Parent Company					
	2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 26,031	P -	P -	P -	P 57,411	P 83,442
Investments - net	9,021	506	11,903	46,207	9,514	77,151
Loans and receivables - net	157,341	27,556	29,093	29,122	22,641	265,753
Other resources - net	7	346	32	12	14,833	15,230
Total resources	192,400	28,408	41,028	75,341	104,399	441,576
Liabilities:						
Deposit liabilities	88,232	5,873	10,041	2,505	182,016	288,667
Bills payable	30,913	-	4,187	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	9,968	-	-	9,968
Other liabilities	880	-	-	-	10,472	11,352
Total liabilities	120,025	5,873	52,256	4,005	192,488	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	120,025	5,873	52,256	4,005	259,417	441,576
On-book gap	72,375	22,535	(11,228)	71,336	(155,018)	-
Cumulative on-book gap	72,375	94,910	83,682	155,018	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	**72,375**	**22,535**	**(11,228)**	**71,336**	**(155,018)**	**-**
Cumulative total gap	**P 72,375**	**P 94,910**	**P 83,682**	**P 155,018**	**P -**	**P -**

	Parent Company					
	2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 42,143	P -	P -	P -	P 49,283	P 91,426
Investments - net	674	3,207	7,596	33,477	37,876	82,830
Loans and receivables - net	131,872	21,221	22,475	30,813	21,536	227,917
Other resources - net	3	5	497	17	15,087	15,609
Total resources	174,692	24,433	30,568	64,307	123,782	417,782
Liabilities:						
Deposit liabilities	61,105	15,326	9,786	-	173,948	260,165
Bills payable	16,301	-	15,411	-	-	31,712
Bonds payable	13,673	-	27,922	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	514	-	-	-	11,807	12,321
Total liabilities	91,593	15,326	63,071	-	185,755	355,745
Equity	-	-	-	-	62,037	62,037
Total liabilities and equity	91,593	15,326	63,071	-	247,792	417,782
On-book gap	83,099	9,107	((32,503))	64,307	(124,010)	-
Cumulative on-book gap	83,099	92,206	59,703	124,010	-	-
Contingent resources	14,557	2,032	2,138	-	-	18,727
Contingent liabilities	20,911	2,032	2,138	-	-	25,081
Off-book gap	(6,354)	-	-	-	-	(6,354)
Cumulative off-book gap	(6,354)	(6,354)	(6,354)	(6,354)	(6,354)	-
Periodic gap	76,745	9,107	(32,503)	64,307	(124,010)	(6,354)
Cumulative total gap	P 76,745	P 85,852	P 53,349	P 117,656	(P 6,354)	P -

The table below summarizes the potential impact on the Group's and the Parent Company's annual interest income of parallel rate shifts using the repricing profile shown in the previous pages.

	Changes in Interest Rates (in basis points)			
	- 100	**- 200**	**+ 100**	**+ 200**
December 31, 2017				
Group	**(P 586)**	**(P 1,172)**	**P 586**	**P 1,172**
Parent Company	**(831)**	**(1,661)**	**831**	**1,661**
December 31, 2016				
Group	(P 667)	(P 1,335)	P 667	P 1,335
Parent Company	(906)	(1,811)	906	1,811

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVPL or financial assets at FVOCI as of December 31, 2017 and 2016 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI, estimate the potential loss and determines the market and position risk requirement on equity securities at FVPL in the computation of the market and position risk requirement for all equity positions.

RCAP uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCAP uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group 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 Credit and Group Risk Division (CGRD) of CRISMS assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter.

Impairment provisions are recognized for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in particular industry segments that represent a concentration in the Group's financial instrument portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts the Group's exposure to such credit risk, as necessary.

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 Parent Company uses its internal credit risk rating system (ICRRS) to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

Only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts which were rated BB+ to lower than CCC and accounts rated as Especially Mentioned, Substandard, Doubtful and Loss. Significant amount is at least P0.5 for sales contract receivables and P15 for all other loan and receivable accounts.

In the process of applying the Parent Company's ICRRS in determining indications of impairment on individually significant items of loans and receivables, the Parent Company analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC and below*	Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses.
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.

Risk Rating	Rating Description/Criteria
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

The foregoing ICRRS is established by the Parent Company in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual debt issue which is still performing or current in status. The risk ratings determined by the Parent Company for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

Credit Risk Management Division (CRMD) of RSB is, in turn, tasked to measure, control and manage credit risk on the consumer loans business of RSB through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the Credit Committee and Risk Committee, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of RSB is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

4.4.1 Exposure to Credit Risk

The carrying amount of financial resources recognized in the financial statements, net of any allowance for losses, which represents the maximum exposure to credit risk, without taking into account the value of any collateral obtained, as of December 31 follows:

	Group			
	2017		2016	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P -**	**P -**	P -	P -
CCC+ and below	**-**	**-**	-	-
Especially mentioned	**1,308**	**-**	4,055	-
Sub-standard	**4,181**	**-**	1,318	-
Doubtful	**250**	**-**	59	-
Loss	**1,222**	**-**	903	-
Gross amount	**6,961**	**-**	6,335	-
Unearned interest and discount	**(46)**	**-**	-	-
Allowance for impairment	**(2,249)**	**-**	(1,373)	-
Carrying amount	**4,666**	**-**	4,962	-
Collectively Assessed for Impairment				
Unrated	**103,319**	**-**	88,390	-
AAA to AA-	-	**-**	-	-
A+ to A-	-	**-**	-	-
BBB+ to BBB-	**21,128**	**-**	22,632	-
BB+ to BB	**40,848**	**-**	40,278	-
BB- to BB	**76,321**	**-**	62,455	-
B to B-	**105,963**	**-**	80,706	-
CCC+ and below	**581**	**-**	5,198	-
Especially mentioned	**105**	**-**	154	-
Sub-standard	**678**	**-**	794	-
Doubtful	**726**	**-**	668	-
Loss	**125**	**-**	122	-
Gross amount	**349,794**	**-**	301,397	-
Unearned interest and discount	**(771)**	**-**	(243)	-
Allowance for impairment	**(4,451)**	**-**	(4,932)	-
Carrying amount	**344,572**	**-**	296,222	-
Unquoted debt securities classified as loans	**1,939**	**-**	1,256	-
Other receivables	**4,359**	**-**	4,893	-
Allowance for impairment	**(1,293)**	**-**	(1,106)	-
Carrying amount	**5,005**	**-**	5,043	-
Neither Past Due Nor Impaired	**-**	**68,879**	-	68,378
Total Carrying Amount	**P 354,243**	**P 68,879**	P 306,167	P 68,378

	Parent Company			
	2017		2016	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P -**	**P -**	P -	P -
CCC+ and below	**-**	**-**	-	-
Especially mentioned	**-**	**-**	-	-
Sub-standard	**995**	**-**	115	-
Doubtful	**22**	**-**	59	-
Loss	**159**	**-**	310	-
Gross amount	**1,176**	**-**	484	-
Allowance for impairment	**(276)**	**-**	(384)	-
Carrying amount	**900**	**-**	100	-
Collectively Assessed for Impairment				
Unrated	**18,314**	**-**	15,023	-
AAA to AA-	**-**	**-**	-	-
A+ to A-	**-**	**-**	-	-
BBB+ to BBB-	**21,128**	**-**	22,632	-
BB+ to BB	**40,848**	**-**	40,278	-
BB- to B+	**76,321**	**-**	62,455	-
B to B-	**105,480**	**-**	80,706	-
CCC+ and below	**581**	**-**	5,198	-
Especially mentioned	**105**	**-**	154	-
Sub-standard	**678**	**-**	794	-
Doubtful	**656**	**-**	668	-
Loss	**125**	**-**	121	-
Gross amount	**264,236**	**-**	228,030	-
Unearned interest and discount	**(332)**	**-**	(226)	-
Allowance for impairment	**(3,632)**	**-**	(3,426)	-
Carrying amount	**260,272**	**-**	224,378	-
Unquoted debt securities classified as loans	**1,177**	**-**	1,196	-
Other receivables	**4,476**	**-**	3,740	-
Allowance for impairment	**(1,034)**	**-**	(982)	-
Carrying amount	**4,619**	**-**	3,954	-
Neither Past Due Nor Impaired	**-**	**54,004**	-	61,228
Total Carrying Amount	**P 265,791**	**P 54,004**	P 228,432	P 61,228

The credit risk for cash and cash equivalents such as Due from BSP, Due from Other Banks and Loans Arising from Reverse Repurchase Agreement are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

4.4.2 Collateral Held as Security and Other Credit Enhancements

The Group 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. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2017 and 2016.

An estimate of the fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2017 and 2016 is shown below.

	Group	
	2017	2016
Against individually impaired		
Real property	**P 1,164**	P 129
Chattels	**207**	201
Against classified accounts but not impaired		
Real property	**54,256**	75,014
Chattels	**10,959**	11,385
Equity securities	**5,356**	55
Others	**630**	1,027
Against neither past due nor impaired		
Real property	**95,088**	82,599
Chattels	**55,026**	48,029
Hold-out deposits	**15,799**	16,379
Others	**28,017**	21,708
	P 266,502	P 256,526

	Parent Company	
	2017	2016
Against individually impaired		
Real property	**P 1,164**	P 129
Chattels	**-**	15
Against classified accounts but not impaired		
Real property	**42,594**	54,987
Equity securities	**5,356**	55
Chattels	**1,434**	2,993
Others	**270**	587
Against neither past due nor impaired		
Real property	**16,707**	12,503
Hold-out deposits	**14,380**	15,925
Others	**25,105**	19,638
	P 107,010	P 106,832

4.4.3 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency.

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 11.1.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done in the context of ROC meetings.

4.4.4 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopts a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

4.5 Operational Risk

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

The Operational Risk Management Group (ORMG) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMG applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ORMG to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMG's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

- KRIs are used to monitor the operational risk profile of the Group and of each business unit, and alert management of impending problems in a timely fashion;

- Internal loss information is collected, reported, and utilized to model operational risk; and,

- The ORMG reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Public Relations Committee chaired by the head of the Parent Company's Public and Media Relations Division.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Group by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The 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 (CFT) 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group'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 Group Head's approval is necessary.

The Group'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 2016, the Group instituted reforms aimed to reinforce its AML/CFT controls. The Group 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 Group 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 Group's personnel. In the latter part of 2016 to the first quarter of 2017, the Group 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 Group's regular training program.

In addition to the Group's existing transaction monitoring system, the Group has also subscribed to an international watchlist database in 2017 to further strengthen its screening capabilities for client on-boarding and cross-border transactions.

The Group 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, 2017, the AML Board Committee was created to meet on a monthly basis and provide oversight of AML related activities of the Bank.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, RSB, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P2,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) Common Equity Tier 1 Capital includes the following:

(i) paid-up common stock;
(ii) common stock dividends distributable;
(iii) additional paid-in capital;
(iv) deposit for common stock subscription;
(v) retained earnings;
(vi) undivided profits;
(vii) other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
(viii) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

(i) instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
(ii) financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
(iii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
(iv) additional paid-in capital resulting from issuance of AT1 capital;
(v) deposit for subscription to AT1 instruments; and,
(vi) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

(i) instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
(ii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
(iii) deposit for subscription of Tier 2 capital;
(iv) appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB);
(v) general loan loss provisions; and,
(vi) minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based Capital Adequacy Ratio, the total Qualifying Capital is expressed as a percentage of Total Risk Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by credit risk mitigation (CRM).

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular 538.

The Group's and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as of December 31, 2017 and 2016 follows:

	Group	Parent Company
2017:		
Tier 1 Capital		
CET 1	**P 54,326**	**P 40,873**
AT1	**3**	**3**
	54,329	**40,876**
Tier 2 Capital	**13,115**	**12,456**
Total Qualifying Capital	**P 67,444**	**P 53,332**
Total Risk – Weighted Assets	**P 436,269**	**P 347,932**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**15.46%**	**15.33%**
Tier 1 Capital Ratio	**12.45%**	**11.75%**
Total CET 1 Ratio	**12.45%**	**11.75%**

	Group	Parent Company
2016:		
Tier 1 Capital		
CET 1	P 49,842	P 37,659
AT1	3	3
	49,845	37,662
Tier 2 Capital	12,622	12,048
Total Qualifying Capital	P 62,467	P 49,710
Total Risk – Weighted Assets	P 386,663	P 306,268
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	16.16%	16.23%
Tier 1 Capital Ratio	12.89%	12.30%
Total CET 1 Ratio	12.89%	12.30%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

(b) The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

(c) The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a business-as-usual (BAU) and stressed scenario;

(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

(e) The Bank's ICAAP document must be submitted to the BSP every January 31 of each year, beginning 2011.

The Group submitted its first ICAAP trial document in January 2009. Subsequent revisions to the trial document were made, and likewise submitted in February 2010 and May 2010 following regulatory review and the Group's own process enhancements. Complementing the ICAAP document submissions were dialogues between the BSP and the Group's representatives, the second of which transpired last November 2010 between a BSP panel chaired by the Deputy Governor for Supervision and Examination, and the members of the Parent Company's EXCOM. The Group submitted its final ICAAP document within the deadline set by the BSP. Henceforth up to 2014, the annual submission of an ICAAP document is due every January 31st and every March 31st starting in 2015, as prescribed by the BSP.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the Comprehensive Concentration Index (CCI). The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

(b) *Interest Rate Risk in the Banking Book (IRRBB)* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group estimates interest rate risk in the banking book as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(c) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(d) *Information Technology Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

(e) *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For Business-as-usual scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a business-as-usual case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Public Relations Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of those financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 103,181**	**P 103,181**	P 115,393	P 115,393
Investment securities	**59,978**	**56,396**	51,864	49,698
Loans and receivables - net	**354,205**	**354,205**	305,652	305,652
Other resources	**1,138**	**1,138**	873	873
	518,502	**514,920**	473,782	471,616
At FVPL	**7,591**	**7,591**	18,079	18,079
At FVOCI	**5,363**	**5,363**	5,679	5,679
	P 531,456	**P 527,874**	P 497,540	P 495,374
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 388,412**	**P 388,412**	P 353,077	P 353,077
Bills payable	**43,967**	**43,967**	37,643	37,643
Bonds payable	**28,060**	**29,465**	41,595	44,175
Subordinated debt	**9,968**	**15,178**	9,952	20,570
Accrued interest and other expenses	**3,929**	**3,929**	4,584	4,584
Other liabilities	**11,233**	**11,233**	8,883	8,883
	485,569	**492,184**	455,734	468,932
Derivative financial liabilities	**483**	**483**	385	385
	P 486,052	**P 492,667**	P 456,119	P 469,317

	Parent Company			
	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost				
Cash and cash equivalents	**P 83,442**	**P 83,442**	P 91,426	P 91,426
Investment securities	**48,141**	**47,784**	44,842	43,931
Loans and receivables - net	**265,753**	**265,753**	227,917	227,917
Other resources	**179**	**179**	466	466
	397,515	**397,158**	364,651	363,740
At FVPL	**6,553**	**6,553**	17,075	17,075
At FVOCI	**3,439**	**3,439**	3,735	3,735
	P 407,507	**P 407,150**	P 385,461	P 384,550

	Parent Company			
	2017		2016	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 288,667**	**P 288,667**	P 260,165	P 260,165
Bills payable	**36,600**	**36,600**	31,712	31,712
Bonds payable	**28,060**	**29,465**	41,595	44,175
Subordinated debt	**9,968**	**15,178**	9,952	20,570
Accrued interest and other expenses	**3,009**	**3,009**	3,515	3,515
Other liabilities	**6,256**	**6,256**	6,094	6,094
	372,560	**379,175**	353,033	366,231
Derivative financial liabilities	**483**	**483**	385	385
	P 373,043	**P 379,658**	P 353,418	P 366,616

Except for investment securities at amortized cost, bonds payable and subordinated debt with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group's and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

		Group			
			Related amounts not set off in the statements of financial position		
	Notes	**Gross amounts recognized in the statements of financial position**	**Financial instruments**	**Cash received**	**Net amount**
December 31, 2017					
Loans and receivables – Receivable from customers	11	**P 352,845**	**(P 15,799)**	**P -**	**P 337,046**
Trading and investment securities – Investment securities at amortized cost	10	**72,932**	**(5,686)**	**-**	**67,246**
Other resources – Margin deposits	15	**23**	**-**	**(23)**	**-**
December 31, 2016					
Loans and receivables – Receivable from customers	11	P 305,659	(P 16,379)	P -	P 289,280
Trading and investment securities – Investment securities at amortized cost	10	75,622	(6,859)	-	68,763
Other resources – Margin deposits	15	20	-	(20)	-

	Notes	Gross amounts recognized in the statements of financial position		Related amounts not set off in the statements of financial position				Net amount	
				Financial instruments		Cash received			
Parent Company									
December 31, 2017									
Loans and receivables – Receivable from customers	11	**P**	**264,631**	**(P**	**14,380)**	**P**	**-**	**P**	**250,251**
Trading and investment securities – Investment securities at amortized cost	10		**58,133**	**(**	**5,686)**		**-**		**52,447**
Other resources – Margin deposits	15		**23**		**-**	**(**	**23)**		**-**
December 31, 2016									
Loans and receivables – Receivable from customers	11	P	227,724	(P	15,925)	P	-	P	211,799
Trading and investment securities – Investment securities at amortized cost	10		65,133	(	6,859)		-		58,274
Other resources – Margin deposits	15		20		-	(	20)		-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Notes	Gross amounts recognized in the statements of financial position		Related amounts not set off in the statements of financial position				Net amount	
				Financial instruments		Cash received			
Group									
December 31, 2017									
Deposit liabilities	17	**P**	**388,412**	**(P**	**15,799)**	**P**	**-**	**P**	**372,613**
Bills payable	18		**43,967**	**(**	**5,686)**		**-**		**38,281**
Other liabilities – Derivative financial liabilities	22		**483**		**-**	**(**	**23)**		**460**
December 31, 2016									
Deposit liabilities	17	P	353,077	(P	16,379)	P	-	P	336,698
Bills payable	18		43,967	(	6,859)		-		37,108
Other liabilities – Derivative financial liabilities	22		385		-	(	20)		365

	Notes	Gross amounts recognized in the statements of financial position		Related amounts not set off in the statements of financial position				Net amount	
				Financial instruments		Cash received			
Parent Company									
December 31, 2017									
Deposit liabilities	17	**P**	**288,667**	**(P**	**14,380)**	**P**	**-**	**P**	**274,287**
Bills payable	18		**43,967**	**(**	**5,686)**		**-**		**38,281**
Other liabilities – Derivative financial liabilities	22		**483**		**-**	**(**	**23)**		**460**
December 31, 2016									
Deposit liabilities	17	P	260,165	(P	15,925)	P	-	P	244,240
Bills payable	18		43,967	(	6,859)		-		37,108
Other liabilities – Derivative financial liabilities	22		385		-	(	20)		365

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Group and its counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreement; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016.

	Group			
	Level 1	Level 2	Level 3	Total
2017:				
Financial assets at FVPL:				
Government securities	P 4,386	P -	P -	P 4,386
Corporate debt securities	1,396	-	-	1,396
Equity securities	147	-	543	690
Derivative assets	29	1,090	-	1,119
	5,958	1,090	543	7,591
Financial assets at FVOCI – Equity securities	3,456	197	1,710	5,363
Total Resources at Fair Value	**P 9,414**	**P 1,287**	**P 2,253**	**P 12,954**
Derivative liabilities	**P -**	**P 483**	**P -**	**P 483**
2016:				
Financial assets at FVPL:				
Government securities	P 14,822	P -	P -	P 14,822
Corporate debt securities	514	-	-	514
Equity securities	979	-	586	1,565
Derivative assets	31	1,147	-	1,178
	16,346	1,147	586	18,079
Financial assets at FVOCI – Equity securities	3,743	192	1,744	5,679
Total Resources at Fair Value	P 20,089	P 1,339	P 2,330	P 23,758
Derivative liabilities	P -	P 385	P -	P 385

	Parent Company			
	Level 1	Level 2	Level 3	Total
2017:				
Financial assets at FVPL:				
Government securities	P 4,289	P -	P -	P 4,289
Corporate debt securities	455	-	-	455
Equity securities	147	-	543	690
Derivative assets	29	1,090	-	1,119
	4,920	1,090	543	6,553
Financial assets at FVOCI –				
Equity securities	1,761	197	1,481	3,439
Total Resources at Fair Value	**P 6,681**	**P 1,287**	**P 2,024**	**P 9,992**
Derivative liabilities	**P -**	**P 483**	**P -**	**P 483**
2016:				
Financial assets at FVPL:				
Government securities	P 14,790	P -	P -	P 14,790
Corporate debt securities	418	-	-	418
Equity securities	103	-	586	689
Derivative assets	31	1,147	-	1,178
	15,342	1,147	586	17,075
Financial assets at FVOCI –				
Equity securities	2,035	185	1,515	3,735
Total Resources at Fair Value	P 17,377	P 1,332	P 2,101	P 20,810
Derivative liabilities	P -	P 385	P -	P 385

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government securities and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period. On the other hand, government securities with fair value categorized within Level 2 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., PDEx).

The fair value of the Group's government securities categorized under Level 2 of the hierarchy is estimated and determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., government bonds or notes). In applying this pricing methodology, the yield of the underlying securities is interpolated between the observable yields to consider any gaps in the maturities of the benchmark securities used to develop a benchmark curve.

(b) Equity Securities

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of December 31, 2017 and 2016 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and categorized within Level 3, their fair value is determined through the net asset value or a market-based approach valuation technique (price-to-book value method) using current market values of comparable listed entities. The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities classified as financial assets at FVPL as of December 31, 2017 and 2016 ranges from 0.578:1 to 2.290:1 and from 0.746:1 to 2.797:1, respectively.

Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

A reconciliation of the carrying amounts of level 3 equity securities at the beginning and end of 2017 and 2016 is shown below.

	Group		
	Financial Assets at FVOCI	**Financial Assets at FVPL**	**Total**
2017:			
Balance at beginning of year	P 1,744	P 586	P 2,330
Fair value losses	(34)	(43)	(77)
Balance at end of year	**P 1,710**	**P 543**	**P 2,253**
2016:			
Balance at beginning of year	P 2,165	P 367	P 2,532
Additions	1,845	-	1,845
Fair value gains (losses)	(251)	219	(32)
Transfer to level 1	(2,015)	-	(2,015)
Balance at end of year	P 1,744	P 586	P 2,330

	Parent Company		
	Financial Assets at FVOCI	Financial Assets at FVPL	Total
2017:			
Balance at beginning of year	P 1,515	P 586	P 2,101
Fair value losses	(34)	(43)	(77)
Balance at end of year	**P 1,481**	**P 543**	**P 2,024**
2016:			
Balance at beginning of year	P 2,145	P 367	P 2,512
Fair value gains	1,385	219	1,604
Transfer to level 1	(2,015)	-	(2,015)
Balance at end of year	P 1,515	P 586	P 2,101

The transfer to level 1 in 2016 pertains to a certain equity investment in an entity which shares of stock were publicly listed in the PSE in November 2016. There were no transfers between the levels of the fair value hierarchy for the year ended December 31, 2017.

(c) Derivative Assets and Liabilities

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
2017:				
Financial Assets:				
Cash and other cash items	P 14,693	P -	P -	P 14,693
Due from BSP	58,801	-	-	58,801
Due from other banks	19,818	-	-	19,818
Loans arising from reverse repurchase agreement	9,831	-	-	9,831
Investment securities at amortized cost	56,396	-	-	56,396
Loans and receivables - net	-	-	354,243	354,243
Other resources	-	-	1,138	1,138
	P 159,539	**P -**	**P 355,381**	**P 514,920**

	Group			
	Level 1	Level 2	Level 3	Total
Financial Liabilities:				
Deposit liabilities	P 388,412	P -	P -	P 388,412
Bills payable	-	43,967	-	43,967
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	15,178	-	15,178
Accrued interest and other expenses	-	-	3,929	3,929
Other liabilities	-	-	11,233	11,233
	P 388,412	**P 88,610**	**P 15,162**	**P 492,184**

2016:				
Financial Assets:				
Cash and other cash items	P 15,176	P -	P -	P 15,176
Due from BSP	66,520	-	-	66,520
Due from other banks	25,293	-	-	25,293
Loans arising from reverse repurchase agreement	7,889	-	-	7,889
Investment securities at amortized cost	49,698	-	-	49,698
Loans and receivables - net	-	-	306,167	306,167
Other resources	-	-	873	873
	P 164,576	P -	P 307,040	P 471,616

	Group			
	Level 1	Level 2	Level 3	Total
Financial Liabilities:				
Deposit liabilities	P 353,077	P -	P -	P 353,077
Bills payable	-	37,643	-	37,643
Bonds payable	-	44,175	-	44,175
Subordinated debt	-	20,570	-	20,570
Accrued interest and other expenses	-	-	4,584	4,584
Other liabilities	-	-	8,883	8,883
	P 353,077	P 102,388	P 13,467	P 468,932

	Parent Company			
	Level 1	Level 2	Level 3	Total
2017:				
Financial Assets:				
Cash and other cash items	P 10,415	P -	P -	P 10,415
Due from BSP	47,186	-	-	47,186
Due from other banks	18,368	-	-	18,368
Loans arising from reverse repurchase agreement	7,435	-	-	7,435
Investment securities at amortized cost	47,784	-	-	47,784
Loans and receivables - net	-	-	265,791	265,791
Other resources	-	-	179	179
	P 131,188	**P -**	**P 265,970**	**P 397,158**
Financial Liabilities:				
Deposit liabilities	P 288,667	P -	P -	P 288,667
Bills payable	-	36,600	-	36,600
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	15,178	-	15,178
Accrued interest and other expenses	-	-	3,009	3,009
Other liabilities	-	-	6,256	6,256
	P 288,667	**P 81,243**	**P 9,265**	**P 379,175**

	Parent Company							
	Level 1		Level 2		Level 3		Total	
2016:								
Financial Assets:								
Cash and other cash items	P	11,000	P	-	P	-	P	11,000
Due from BSP		50,871		-		-		50,871
Due from other banks		24,109		-		-		24,109
Loans arising from reverse repurchase agreement		4,931		-		-		4,931
Investment securities at amortized cost		43,931		-		-		43,931
Loans and receivables - net		-		-		228,432		228,432
Other resources		-		-		466		466
	P	134,842	P	-	P	228,898	P	363,740
Financial Liabilities:								
Deposit liabilities	P	260,165	P	-	P	-	P	260,165
Bills payable		-		31,712		-		31,712
Bonds payable		-		44,175		-		44,175
Subordinated debt		-		20,570		-		20,570
Accrued interest and other expenses		-		-		3,515		3,515
Other liabilities		-		-		6,094		6,094
	P	260,165	P	96,457	P	9,609	P	366,231

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) *Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreement*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost is determined by direct reference to published price quoted in an active market for traded securities.

(c) *Deposits Liabilities and Borrowings*

The estimated fair value of deposits is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of bonds payable and subordinated debt is computed based on the average of published ask and bid prices.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P4,940 and P4,700 in the Group's financial statements and P6,161 and P5,799 in the Parent Company's financial statements as of December 31, 2017 and 2016, respectively (see Note 14.3). The fair value hierarchy of these properties as of December 31, 2017 and 2016 is categorized as Level 3.

The fair values of the Group's and Parent Company's investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

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

There has been no change in the valuation techniques during the year.

8. SEGMENT INFORMATION

8.1 Business Segments

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) Retail – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products. This segment includes portfolios of RSB and Rizal Microbank.

(b) *Corporate* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of other subsidiaries except for RSB and Rizal Microbank which are presented as part of Retail.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2017 and 2016.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2017, 2016 and 2015 follow:

	Retail	Corporate	Treasury	Others	Total
2017:					
Revenues					
From external customers					
Interest income	P 19,692	P 14,705	P 3,398	P 501	P 38,296
Interest expense	(4,262)	(9,210)	(2,161)	(256)	(15,889)
Net interest income	15,430	5,495	1,237	245	22,407
Non-interest income	3,944	2,120	1,738	1,125	8,927
	19,374	7,615	2,975	1,370	31,334
Intersegment revenues					
Interest income	-	2,892	-	7	2,899
Non-interest income	-	-	-	499	499
	-	2,892	-	506	3,398
Total revenues	19,374	10,507	2,975	1,876	34,732
Expenses					
Operating expenses excluding depreciation and amortization	11,840	1,988	551	986	15,365
Depreciation and amortization	823	94	13	341	1,271
	12,663	2,082	564	1,327	16,636
Segment operating income	P 6,711	P 8,425	P 2,411	P 549	P 18,096

	Retail	Corporate	Treasury	Others	Total
2017:					
Total resources and liabilities					
Total resources	**P 136,619**	**P 257,406**	**P 83,728**	**P 14,941**	**P 492,694**
Total liabilities	**P 402,809**	**P 182,495**	**P 20,692**	**P 9,261**	**P 615,257**
2016:					
Revenues					
From external customers					
Interest income	P 17,075	P 13,064	P 3,946	P 386	P 34,471
Interest expense	(3,199)	(7,598)	(2,960)	(204)	(13,961)
Net interest income	13,876	5,466	986	182	20,510
Non-interest income	3,624	1,328	1,960	1,172	8,084
	17,500	6,794	2,946	1,354	28,594
Intersegment revenues					
Interest income	-	2,235	-	5	2,240
Non-interest income	-	-	-	460	460
	-	2,235	-	465	2,700
Total revenues	17,500	9,029	2,946	1,819	31,294
Expenses					
Operating expenses excluding depreciation and amortization	10,889	1,756	546	1,186	14,377
Depreciation and amortization	797	83	9	286	1,175
	11,686	1,839	555	1,473	15,552
Segment operating income	P 5,815	P 7,190	P 2,391	P 345	P 15,742
Total resources and liabilities					
Total resources	P 122,617	P 227,502	P 98,302	P 12,899	P 461,320
Total liabilities	P 363,468	P 155,872	P 28,297	P 7,264	P 554,901

	Retail	Corporate	Treasury	Others	Total
2015:					
Revenues					
From external customers					
Interest income	P 13,372	P 11,280	P 2,715	P 285	P 27,652
Interest expense	(2,716)	(4,078)	(2,740)	(130)	(9,664)
Net interest income (expense)	10,656	7,202	(25)	155	17,988
Non-interest income	3,940	1,559	1,606	1,253	8,355
	14,596	8,761	1,581	1,408	26,342
Intersegment revenues					
Interest income	-	2,169	-	6	2,175
Non-interest income	-	3	-	410	413
	-	2,172	-	416	2,588
Total revenues	14,596	10,930	1,581	1,824	28,930
Expenses					
Operating expenses, excluding depreciation and amortization	11,066	2,071	433	1,520	15,090
Depreciation and amortization	671	95	9	133	908
	11,737	2,166	442	1,654	15,998
Segment operating Income	P 2,859	P 8,764	P 1,139	P 170	P 12,932
Total resources and liabilities					
Total resources	P 366,155	P 283,356	P 93,941	P 10,582	P 754,034
Total liabilities	P 366,155	P 283,356	P 93,941	P 10,582	P 754,034

8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2017	2016	2015
Revenue			
Total segment revenues	**P 34,732**	P 31,294	P 28,930
Unallocated income	**(6,023)**	(5,587)	(3,932)
Elimination of intersegment revenues	**(3,588)**	(2,886)	(2,766)
Revenues as reported in profit or loss	**P 25,121**	P 22,821	P 22,232
Profit or loss			
Total segment operating income	**P 18,096**	P 15,742	P 12,932
Unallocated profit	**(10,887)**	(9,633)	(5,629)
Elimination of intersegment profit	**(2,899)**	(2,239)	(2,175)
Group net profit as reported in profit or loss	**P 4,310**	P 3,870	P 5,128
Resources			
Total segment resources	**P 492,694**	P 461,320	P 754,034
Unallocated assets	**63,355**	62,291	(235,676)
Elimination of intersegment assets	**(2,061)**	(2,418)	(2,297)
Total resources	**P 553,988**	P 521,193	P 516,061

	2017	2016	2015
Liabilities			
Total segment liabilities	**P 615,257**	P 554,901	P 754,034
Unallocated liabilities	**(126,235)**	(92,955)	(298,805)
Elimination of intersegment liabilities	**(2,061)**	(2,886)	(2,297)
Total liabilities	**P 486,961**	P 459,060	P 457,932

8.4 *Analysis of Secondary Segment Information*

Secondary information (by geographical locations) as of and for the years ended December 31, 2017, 2016 and 2015 follow:

	Philippines	United States	Asia and Europe	Total
2017:				
Statement of profit or loss				
Total income	P 32,212	P -	P 6	P 32,218
Total expenses	27,877	-	31	27,908
Net profit (loss)	**P 4,335**	**P -**	**(P 25)**	**P 4,310**
2017:				
Statement of financial position				
Total resources	**P 553,844**	**P 1**	**P 143**	**P 553,988**
Total liabilities	**P 486,889**	**P 1**	**P 71**	**P 486,961**
Other segment Information – Depreciation and amortization	**P 1,914**	**P -**	**P -**	**P 1,914**
2016:				
Statement of profit or loss				
Total income	P 30,225	P -	P 28	P 30,253
Total expenses	26,306	2	75	26,383
Net profit (loss)	P 3,919	(P 2)	(P 47)	P 3,870
2016:				
Statement of financial position				
Total resources	P 521,018	P 1	P 174	P 521,193
Total liabilities	P 458,967	P -	P 93	P 459,060
Other segment Information – Depreciation and amortization	P 1,766	P -	P -	P 1,766

		Philippines		United States		Asia and Europe		Total
2015:								
Statement of profit or loss								
Total income	P	28,299	P	-	P	183	P	28,482
Total expenses		23,176		4		174		23,354
Net profit (loss)	P	5,123	(P	4)	P	9	P	5,128
Statement of financial position								
Total resources	P	515,602	P	3	P	456	P	516,061
Total liabilities	P	457,599	P	-	P	333	P	457,932
Other segment information – Depreciation and amortization	P	1,609	P	-	P	2	P	1,611

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group				Parent Company			
		2017		2016		**2017**		2016
Cash and other cash items	**P**	**14,693**	P	15,176	**P**	**10,415**	P	11,000
Due from BSP		**58,801**		66,520		**47,186**		50,871
Due from other banks		**19,818**		25,293		**18,368**		24,109
Loans arising from reverse repurchase agreement		**9,831**		7,889		**7,435**		4,931
Interbank loans receivables (see Note 11)		**38**		515		**38**		515
	P	**103,181**	P	115,393	**P**	**83,442**	P	91,426

Cash consists primarily of funds in the form of Philippine currency notes and coins and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Notes 17 and 27), to serve as clearing account for interbank claims and to comply with existing trust regulations. Due from BSP also includes Overnight Deposit and Term Deposit Accounts. The balance of Overnight Deposit amounted to P2,017 and P7,005 for the Group and, nil and P3,800 for the Parent Company, in 2017 and 2016, respectively, while Term Deposit Account amounted to P200 and P13,500 for the Group, and P200 and P9,000 for the Parent Company as of December 31, 2017 and 2016, respectively. Overnight deposit bears interest of 2.5% years in 2017, 2016 and 2015, while term deposit account earns interest of 3.4%, 3.3%, and 2.5% in 2017, 2016 and 2015, respectively.

The balance of Due from Other Banks account represents regular deposits with the following:

	Group				Parent Company			
	2017		2016		**2017**		2016	
Foreign banks	**P**	**17,724**	P	23,232	**P**	**17,284**	P	23,043
Local banks		**2,094**		2,061		**1,084**		1,066
	P	**19,818**	P	25,293	**P**	**18,368**	P	24,109

The breakdown of Due from Other Banks account by currency is shown below.

	Group				Parent Company			
	2017		2016		**2017**		2016	
Foreign currencies	**P**	**17,922**	P	23,775	**P**	**17,839**	P	23,561
Philippine peso		**1,896**		1,518		**529**		548
	P	**19,818**	P	25,293	**P**	**18,368**	P	24,109

Interest rates per annum on these deposits in other banks range from 0.00% to 1.20% in 2017, from 0.35% to 1.00% in 2016, and from 0.00% to 0.30% in 2015.

The Group has loans and receivables from BSP as of December 31, 2017 and 2016 arising from overnight lending from excess liquidity which earn effective interest of 3.00% in both years. These loans normally mature within 30 days. Interest income earned from these financial assets is presented under Interest Income account in the statements of profit or loss.

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group				Parent Company			
	2017		2016		**2017**		2016	
Financial assets at FVPL	**P**	**7,591**	P	18,079	**P**	**6,553**	P	17,075
Financial assets at FVOCI		**5,363**		5,679		**3,439**		3,735
Investment securities at amortized cost		**59,978**		51,864		**48,141**		44,842
	P	**72,932**	P	75,622	**P**	**58,133**	P	65,652

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	Group				Parent Company			
	2017		2016		**2017**		2016	
Government securities	**P**	**4,386**	P	14,822	**P**	**4,289**	P	14,790
Corporate debt securities		**462**		514		**455**		418
Equity securities		**1,624**		1,565		**690**		689
Derivative financial assets		**1,119**		1,178		**1,119**		1,178
	P	**7,591**	P	18,079	**P**	**6,553**	P	17,075

The carrying amounts of financial assets at FVPL are classified as follows:

	Group				Parent Company			
	2017		2016		**2017**		2016	
Held-for-trading	**P**	**4,848**	P	15,336	**P**	**4,744**	P	15,208
Designated as at FVPL		**1,624**		1,565		**690**		689
Derivatives		**1,119**		1,178		**1,119**		1,178
	P	**7,591**	P	18,079	**P**	**6,553**	P	17,075

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2017	2016	2015
Peso denominated	**2.13% - 8.75%**	1.63% - 12.13%	2.63% - 8.44%
Foreign currency denominated	**2.95% - 10.63%**	1.30% - 11.63%	3.45% - 9.63%

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVPL.

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year. Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group's and Parent Company's financial statements are shown below.

	Notional Amount		Fair Values			
			Assets		Liabilities	
2017:						
Currency swaps and forwards	P	51,060	P	911	P	402
Interest rate swaps and futures		26,999		174		80
Debt warrants		6,250		29		-
Options		3,718		5		1
Credit default swap		25		-		-
	P	**88,052**	**P**	**1,119**	**P**	**483**
2016:						
Currency swaps and forwards	P	27,155	P	1,023	P	288
Interest rate swaps and futures		22,346		106		92
Debt warrants		6,224		31		-
Options		3,604		15		5
Credit default swap		99		3		-
	P	59,428	P	1,178	P	385

Derivative liabilities amounting to P483 and P385 as of December 31, 2017 and 2016, respectively, are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group's and Parent Company's financial assets at FVPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31, 2017 and 2016 consist of:

	Group		Parent Company	
	2017	2016	**2017**	2016
Quoted equity securities	**P 3,653**	P 3,935	**P 1,958**	P 2,200
Unquoted equity securities	**1,710**	1,744	**1,481**	1,535
	P 5,363	P 5,679	**P 3,439**	P 3,735

The Group has designated the above local equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVPL. Unquoted equity securities pertain to golf club shares and investments in non-marketable equity securities.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2017 and 2016 are unquoted equity securities with fair value of P1,710 and P1,744, respectively, determined using the net asset value or a market-based approach (price-to-book value method), hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

The fair value changes in FVOCI are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently to profit or loss (see Note 10.5). In addition, as a result of the Group's disposal of certain financial assets at FVOCI, the related fair value gain of P4 in 2017, and P3 in both 2016 and 2015 recognized in other comprehensive income prior to the year of disposal was transferred from Revaluation Reserves to Surplus account during those years.

In 2017, 2016 and 2015, dividends on these equity securities were recognized amounting to P234, P449 and P237 by the Group and, P196, P307 and P87 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2017 and 2016 consist of:

	Group		Parent Company	
	2017	2016	**2017**	2016
Government securities	**P 39,044**	P 25,990	**P 29,379**	P 21,866
Corporate debt securities	**20,934**	25,874	**18,762**	22,976
	P 59,978	P 51,864	**P 48,141**	P 44,842

The breakdown of these investment securities at amortized cost by currency is shown below.

	Group		Parent Company	
	2017	2016	**2017**	2016
Philippine peso	**P 9,934**	P 11,322	**P 2,634**	P 4,300
Foreign currencies	**50,044**	40,542	**45,507**	40,542
	P 59,978	P 51,864	**P 48,141**	P 44,842

Interest rates per annum on government securities and corporate debt securities range from 2.13% to 8.60% in 2017, 2.13% to 8.44% in 2016 and 1.63% to 8.44% in 2015 for peso denominated securities and 1.63% to 10.63% in 2017, 1.40% to 10.63% in 2016 and 1.40% to 10.63% in 2015 for foreign currency denominated securities.

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

In 2017, the Parent Company disposed of certain peso and US dollar-denominated bonds under its HTC portfolio and classified as investment securities at amortized cost with aggregate carrying amount of P22,279, resulting in gains amounting to P683. The disposal was made in connection with the Parent Company's adoption of PFRS 9 (2014) in 2018 which would require additional allowance for impairment on certain financial assets under the expected credit loss model, and as a result, may diminish the Parent Company's existing level of qualifying capital. The disposal also aims to ensure the Parent Company's continuing regulatory compliance with the required minimum CET 1 ratio. In 2016, the Parent Company and RSB also disposed of certain investment securities under its HTC portfolio with total carrying amount of P54,906 which resulted in net gains of P1,352. Those investments were disposed of in compliance with regulatory capital and liquidity requirement. Gains arising from these disposals were recognized as part of Trading and Securities Gains account in the 2017 and 2016 statements of profit loss.

Management had assessed that the Group's and Parent Company's disposals of the investment securities during those periods are consistent with the Group's HTC business model for the portfolio with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Group's business model in managing financial assets manual and the requirements of PFRS 9 and BSP Circular 708.

The above disposals of investment securities were approved by the respective Executive Committee of the Parent Company and RSB in compliance with the documentation requirements of the BSP, and were accordingly ratified by their respective BOD.

As of December 31, 2017 and 2016, investment securities of both the Group and the Parent Company with an aggregate amortized cost of P7,437 and P4,931, respectively, were pledged as collaterals for bills payable under repurchase agreements (see Note 18).

10.4 Interest Income from Trading and Investment Securities

Interest income from trading and investment securities recognized by the Group and Parent Company in 2017, 2016 and 2015 amounts to:

	Group		
	2017	2016	2015
Financial asset at FVPL	**P 647**	P 938	P 824
Investment securities at amortized cost	**2,137**	2,331	3,056
	P 2,784	P 3,269	P 3,880

	Parent Company		
	2017	2016	2015
Financial asset at FVPL	**P 557**	P 931	P 815
Investment securities at amortized cost	**1,752**	1,996	2,640
	P 2,309	P 2,927	P 3,455

10.5 Trading and Securities Gains (Losses)

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2017, 2016, and 2015 as follows:

	Group		
	2017	2016	2015
Profit or loss:			
Financial asset at FVPL	**P 195**	P 267	P 68
Investment securities at amortized cost	**705**	1,352	1,259
	P 900	P 1,619	P 1,327
Other comprehensive income:			
Financial assets at FVOCI	**(P 156)**	P 1,442	(P 140)
Transfer of fair value gain to surplus	**(4)**	(3)	(3)
	P 160	P 1,439	(P 143)

	Parent Company		
	2017	2016	2015
Profit or loss:			
Financial asset at FVPL	**(P 20)**	P 136	P 68
Investment securities at amortized cost	**684**	1,527	1,164
	P 664	**P** 1,663	P 1,232
Other comprehensive income:			
Financial asset at FVOCI	**(269)**	1,395	(220)
Transfer of fair value gain to surplus	**(4)**	(3)	(3)
	(P 273)	P 1,392	(P 223)

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1):

	Group		Parent Company	
	2017	2016	**2017**	2016
Receivables from customers:				
Loans and discounts	**P 319,099**	P 281,025	**P 233,549**	P 205,390
Credit card receivables	**16,405**	12,760	**16,405**	12,760
Customers' liabilities on acceptances, import bills and trust receipts	**12,404**	7,675	**12,404**	7,675
Lease contract receivables	**2,893**	2,085	**-**	-
Bills purchased	**2,612**	2,128	**2,605**	2,125
Receivables financed	**249**	229	**-**	-
	353,662	305,902	**264,963**	227,950
Unearned discount	**(817)**	(243)	**(332)**	(226)
	352,845	305,659	**264,631**	227,724
Other receivables:				
Accrued interest receivables	**3,094**	2,784	**2,232**	2,075
Accounts receivables [see Notes 15.1 and 28.5 (a) and (b)]	**2,641**	1,594	**2,206**	1,150
Unquoted debt securities classified as loans	**1,939**	1,256	**1,177**	1,196
Sales contract receivables	**1,679**	1,770	**449**	564
Interbank loans receivables (see Note 9)	**38**	515	**38**	515
	9,391	7,919	**6,102**	5,500
	362,236	313,578	**270,733**	233,224
Allowance for impairment (see Note 16)	**(7,993)**	(7,411)	**(4,942)**	(4,792)
	P 354,243	P 306,167	**P 265,791**	P 228,432

Receivables from customer's portfolio earn on average annual interest or range of interest as follows:

	2017	2016	2015
Loans and discounts:			
Philippine peso	**5.00%**	5.08%	5.05%
Foreign currencies	**3.63%**	3.50%	2.95%
Credit card receivables	**17.00% - 27.00%**	19.00% - 29.00%	16.00% - 31.00%
Lease contract receivables	**8.00% - 20.00%**	8.00% - 20.00%	8.00% - 26.88%
Receivable financed	**11.00% - 12.50%**	10.00% - 12.00%	10.00% - 25.00%

Included in unquoted debt securities classified as loans and receivable as of December 31, 2017 and 2016 is a 10-year note from Philippine Asset Growth One, Inc. (PAGO) with a face amount of P731, which is part of the consideration received in relation to the Parent Company's disposal in February 2013 of its non-performing assets (NPAs), consisting of non-performing loans (NPLs) with a carrying amount of P507 and non-performing investment properties with a carrying amount of P1,236 (see Note 14.1). This note receivable carries a variable interest rate of 1.0% per annum during the first five years, 7.0% per annum in the sixth to seventh year, and 7.5% per annum in the last three years. This note receivable was initially recognized in 2013 at fair value resulting in the recognition of day-one loss of P181 which is included as part of allowance for impairment. Also included in the unquoted debt securities is RSB's 10-year note, which bears 6.44% interest per annum with present value of P742. In June 2017, RSB entered into an agreement with a third party for the sale of various foreclosed real properties with book value of P1,127, for a total consideration of P1,385; of which P396 and P989 (face amount) were in the form of cash and note receivable, respectively. Accordingly, the Group recognized a gain on sale amounting to P11 and is presented as part of Gains on assets sold under Miscellaneous income in the 2017 statement of profit or loss (see Notes 15.1 and 25.1).

Accounts receivables include claim from the Bureau of Internal Revenue (BIR) relating to the 20% final withholding tax on Poverty Eradication and Alleviation Certificates (PEACe) bonds amounting to P199. On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. Subsequently, on March 16, 2015, the Parent Company filed a Motion for Clarification and/or Partial Reconsideration (the Motion) and reiterated its arguments with the Supreme Court. On October 5, 2016, the Supreme Court partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCBC Capital which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. In November 2016, the Supreme Court denied the Motion filed by the OSG (see Note 29.2). Accordingly, in 2016, the Parent Company reversed the related allowance for impairment and in 2017, substantial amount of receivables from the BIR was recovered including the legal interest of P43 which is presented as part of Other Interest Income account in the 2017 statement of profit or loss (see Note 29.2).

Also included in Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2017 and 2016, the outstanding balance amounted to P192. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 28).

There is no impairment recognized in this account for the year ended December 31, 2017 and 2016.

11.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Real estate, renting and other related activities	**P 81,927**	P 70,532	**P 52,669**	P 42,853
Electricity, gas and water	**64,794**	52,062	**64,453**	51,480
Consumer	**54,196**	44,174	**18,055**	13,003
Wholesale and retail trade	**40,500**	26,279	**35,692**	23,522
Manufacturing (various industries)	**35,034**	41,689	**33,504**	41,067
Transportation and communication	**22,918**	18,270	**17,162**	14,509
Financial intermediaries	**21,521**	18,783	**19,534**	17,273
Other community, social and personal activities	**14,799**	19,231	**10,755**	14,910
Agriculture, fishing and forestry	**4,928**	4,090	**4,479**	3,770
Hotels and restaurants	**4,133**	3,260	**4,133**	3,260
Mining and quarrying	**1,922**	1,984	**1,779**	1,901
Others	**6,173**	5,305	**2,416**	176
	P 352,845	P 305,659	**P 264,631**	P 227,724

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group and the Parent Company are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Secured:				
Real estate mortgage	**P 86,193**	P 78,707	**P 42,326**	P 41,034
Chattel mortgage	**37,975**	31,831	**623**	454
Hold-out deposit	**15,799**	16,379	**14,380**	15,925
Other securities	**26,718**	29,294	**25,375**	29,294
	166,685	156,211	**82,704**	86,707
Unsecured	**186,160**	149,448	**181,927**	141,017
	P 352,845	P 305,659	**P 264,631**	P 227,724

The maturity profile of the receivables from customers' portfolio follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Due within one year	**P 92,550**	P 78,613	**P 71,992**	P 53,333
Due beyond one year	**260,295**	227,046	**192,639**	174,391
	P 352,845	P 305,659	**P 264,631**	P 227,724

11.2 Non-performing Loans and Impairment

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31, 2017 and 2016 are presented below, net of allowance for impairment in compliance with the BSP Circular 772, *Amendments to Regulations on Non-performing Loans.*

	Group		Parent Company	
	2017	2016	**2017**	2016
Gross NPLs	**P 7,907**	P 6,311	**P 2,851**	P 1,913
Allowance for impairment	**(3,416)**	(3,279)	**(1,394)**	(1,523)
	P 4,491	P 3,032	**P 1,457**	P 390

Based on BSP regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan receivable shall be considered as non-performing when the total amount of arrearages reaches 10% of the total loan receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals. If a loan become non-performing, no accrual of interest income is recognized. Interest is recognized as income only when actual collection thereon is received.

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of 2017 and 2016 is shown below (see Note 16).

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 7,411**	P 7,040	**P 4,792**	P 4,825
Impairment losses during the year – net	**2,076**	1,736	**1,086**	841
Accounts written off and others	**(1,494)**	(1,365)	**(936)**	(874)
Balance at end of year	**P 7,993**	P 7,411	**P 4,942**	P 4,792

12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

		Group	
	Note	**2017**	2016
Acquisition costs of associates:			
HCPI		**P 91**	P 91
LIPC		**57**	57
YCS		**4**	4
		152	152
Accumulated equity in net earnings:			
Balance at beginning of year		**231**	211
Share in net earnings for the year		**92**	131
Share in actuarial gains on defined benefit plan	23.6	**4**	-
Cash dividends		**(62)**	(111)
Balance at end of year		**265**	231
Carrying amount		**P 417**	P 383

		Parent Company	
		2017	2016
Acquisition costs of subsidiaries:			
RSB		**P 3,190**	P 3,190
RCBC Capital		**2,231**	2,231
Rizal Microbank		**1,242**	1,242
RCBC LFC		**1,187**	1,187
RCBC JPL		**375**	375
RCBC Forex		**150**	150
RCBC North America		**134**	134
RCBC Telemoney		**72**	72
RCBC IFL		**58**	58
		8,639	8,639
Accumulated equity in net earnings:			
Balance at beginning of year		**7,817**	6,482
Share in net earnings for the year		**1,960**	1,364
Share in actuarial gains on defined benefit plan	23.6	**19**	24
Share in fair value gains on financial assets at FVOCI	23.6	**113**	47
Share in translation adjustments on foreign operations	23.6	**(1)**	25
Cash dividends		**(315)**	(165)
Others		**(31)**	40
Balance at end of year		**9,562**	7,817
Carrying amount *(carried forward)*		**P 18,201**	P 16,456

	Note	Parent Company 2017	Parent Company 2016
Carrying amount *(brought forward)*		**P 18,201**	P 16,456
Acquisition costs of associates:			
NPHI		**388**	388
HCPI		**91**	91
LIPC		**57**	57
YCS		**4**	4
		540	540
Accumulated equity in net earnings:			
Balance at beginning of year		**182**	223
Share in net earnings for the year		**150**	136
Share in actuarial gains on defined benefit plan	23.6	**4**	-
Cash dividends		**(59)**	(177)
Balance at end of year		**277**	182
		817	722
Carrying amount		**P 19,018**	P 17,178

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company received dividends from its subsidiaries and associates amounting to P315 and P59, respectively, in 2017, P191 and P111, respectively, in 2016, and P602 and P76, respectively, in 2015.

12.1 Changes in Investments in Subsidiaries

On May 25, 2015, the Parent Company's BOD approved the equity infusion into Rizal Microbank of P250 by purchasing additional 2,500,000 common shares of stock with par value of P100 each. The additional capital infusion into Rizal Microbank was approved by the BSP on September 30, 2015.

On February 23, 2015, the Parent Company's BOD approved the subscription to P500 worth of shares of stock of RCBC LFC. In 2016, RCBC LFC filed application with the SEC for increase in authorized capital stock after it has secured the certificate of authority to amend the articles of incorporation from the BSP. Accordingly, as of December 31, 2016, the subscription to P500 worth of shares of stock of RCBC LFC was reclassified to the related investment account. As of December 31, 2017, approval from SEC is still pending.

12.2 Information About Investments in Associates

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31:

	Resources	Liabilities	Revenues	Net Profit
2017:				
HCPI	**P 6,110**	**P 2,965**	**P 25,215**	**P 589**
2016:				
HCPI	P 5,921	P 3,090	P 16,231	P 718

13. 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 2017 and 2016 are shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2017					
Cost	P 1,283	P 3,368	P 9,684	P 1,167	P 15,502
Accumulated depreciation and amortization	-	(1,318)	(5,238)	-	(6,556)
Net carrying amount	**P 1,283**	**P 2,050**	**P 4,446**	**P 1,167**	**P 8,946**
December 31, 2016					
Cost	P 1,289	P 3,315	P 9,858	P 1,125	P 15,587
Accumulated depreciation and amortization	-	(1,226)	(5,460)	(25)	(6,711)
Net carrying amount	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876
January 1, 2016					
Cost	P 1,297	P 3,239	P 7,946	P 1,015	P 13,497
Accumulated depreciation and amortization	-	(1,131)	(4,764)	-	(5,895)
Net carrying amount	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2017					
Cost	P 771	P 2,419	P 6,196	P 890	P 10,276
Accumulated depreciation and amortization	-	(1,000)	(4,079)	-	(5,079)
Net carrying amount	**P 771**	**P 1,419**	**P 2,117**	**P 890**	**P 5,197**
December 31, 2016					
Cost	P 777	P 2,381	P 5,882	P 816	P 9,855
Accumulated depreciation and amortization	-	(933)	(3,731)	-	(4,664)
Net carrying amount	P 777	P 1,449	P 2,151	P 816	P 5,192
January 1, 2016					
Cost	P 786	P 2,308	P 5,378	P 748	P 9,220
Accumulated depreciation and amortization	-	(865)	(3,380)	-	(4,245)
Net carrying amount	P 786	P 1,443	P 1,998	P 748	P 4,975

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 is shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876
Additions	-	47	779	695	1,521
Disposals	(6)	(8)	(81)	(24)	(119)
Depreciation and amortization charges for the year	-	(78)	(650)	(604)	(1,332)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 1,283**	**P 2,050**	**P 4,446**	**P 1,167**	**P 8,946**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602
Additions	-	84	2,302	396	2,782
Reclassification from Investment properties (see Note 14)	10	36	-	-	46
Disposals	(18)	(44)	(192)	(39)	(293)
Depreciation and amortization charges for the year	-	(95)	(894)	(272)	(1,261)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 777	P 1,449	P 2,151	P 815	P 5,192
Additions	-	40	576	283	899
Disposals	(6)	(2)	(75)	(18)	(101)
Depreciation and amortization charges for the year	-	(68)	(535)	(190)	(793)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 771**	**P 1,419**	**P 2,117**	**P 890**	**P 5,197**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 786	P 1,443	P 1,998	P 748	P 4,974
Additions	-	75	780	274	1,129
Disposals	(9)	(2)	(146)	(36)	(193)
Depreciation and amortization charges for the year	-	(68)	(481)	(170)	(719)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 777	P 1,449	P 2,151	P 816	P 5,192

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2017 and 2016, the Parent Company and its bank subsidiaries have satisfactorily complied with this BSP requirement.

The cost of the Group's and the Parent Company's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P3,789 and P3,638, respectively, as of December 31, 2017 and P4,174 and P3,637, respectively, as of December 31, 2016.

14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2017 and 2016 are shown below.

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2017						
Cost	P 2,472	P 1,534	P 4,006	P 995	P 2,005	P 3,000
Accumulated depreciation	-	(549)	(549)	-	(215)	(215)
Accumulated impairment (see Note 16)	(58)	-	(58)	-	-	-
Net carrying amount	**P 2,414**	**P 985**	**P 3,399**	**P 995**	**P 1,790**	**P 2,785**
December 31, 2016						
Cost	P 1,389	P 2,492	P 3,881	P 1,000	P 2,019	P 3,019
Accumulated depreciation	-	(618)	(618)	-	(203)	(203)
Accumulated impairment (see Note 16)	(34)	-	(34)	-	-	-
Net carrying amount	P 1,355	P 1,874	P 3,229	P 1,000	P 1,816	P 2,816
January 1, 2016						
Cost	P 1,853	P 1,901	P 3,754	P 1,006	P 2,008	P 3,014
Accumulated depreciation	-	(314)	(314)	-	(131)	(131)
Accumulated impairment (see Note 16)	(70)	-	(70)	-	-	-
Net carrying amount	P 1,783	P 1,587	P 3,370	P 1,006	P 1,877	P 2,883

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2017 and 2016 follow:

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at January 1, net of accumulated depreciation and impairment	**P 3,229**	P 3,370	**P 2,816**	P 2,883
Additions	**2,360**	559	**19**	46
Disposals	**(1,822)**	(430)	**(7)**	(71)
Impairment losses	**(79)**	(34)	**-**	-
Depreciation charges for the year	**(289)**	(236)	**(43)**	(42)
Balance at December 31, net of accumulated depreciation and impairment	**P 3,399**	P 3,229	**P 2,785**	P 2,816

As of December 31, 2017 and 2016, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling P2,360 and P19, respectively, in 2017, P559 and P46, respectively, in 2016 in settlement of certain loan accounts.

In September 2014, the Parent Company sold to a third party buyer a certain non-performing investment properties consisting of land and building with a total carrying amount of P774 for a total consideration of P740, consisting of P35 cash as down payment, P40 accounts receivable and P665 sales contract receivable with no interest and payable in staggered amount for a period of four years (see Note 11). The sales contract receivable was initially recognized at its fair value resulting in the recognition of a day-one loss amounting to P5 which is included as part of allowance for impairment.

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P441 and P378, respectively, in 2017, P120 and P139, respectively, in 2016, and P281 and P162, respectively, in 2015, which is presented as part of Gains on assets sold under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P416 and P400, respectively, in 2017, P414 and P399, respectively, in 2016, and P310 and P330, respectively, in 2015 and are presented as part of Rentals under Miscellaneous Income account in the statement of profit or loss [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P25 and P18, respectively, both in 2017 and 2016, P17 and P15, respectively, in 2015.

14.3 Valuation and Measurement of Investment Properties

In 2015, certain investment properties of the Group were written down to their carrying amount of P362 based on management's latest evaluation of recoverable amount computed based on fair value less costs of disposal. The recoverable amount of these properties were computed based on the latest available appraisal reports adjusted for the costs of disposal of 4% of the appraised amounts and/or estimated selling price.

The fair value of investment properties as of December 31, 2017 and 2016, based on the available appraisal reports, amounted to P4,940 and P4,700, respectively, for the Group; and, P6,161 and P5,799, respectively, for the Parent Company (see Note 7.4).

15. OTHER RESOURCES

Other resources consist of the following:

		Group		Parent Company	
	Notes	**2017**	2016	**2017**	2016
Creditable withholding taxes		**P 2,110**	P 1,569	**P 1,976**	P 1,532
Assets held-for-sale and disposal group	15.1	**1,594**	3,888	**862**	1,515
Branch licenses	15.5	**1,000**	1,005	**1,000**	1,005
Software – net	15.2	**977**	960	**874**	850
Prepaid expenses		**538**	457	**274**	295
Goodwill	15.3	**426**	426	**-**	-
Refundable deposits		**334**	304	**235**	198
Unused stationery and supplies		**288**	202	**229**	154
Due from clearing house		**246**	92	**-**	-
Foreign currency notes		**98**	52	**87**	45
Returned checks and other cash items		**87**	220	**69**	203
Inter-office float items		**81**	112	**107**	123
Sundry debits		**29**	6	**2**	-
Margin deposits	15.4	**23**	20	**23**	20
Miscellaneous		**1,372**	836	**570**	377
		9,203	10,149	**6,308**	6,317
Allowance for impairment	15.3, 16	**(191)**	(288)	**(2)**	(1)
		P 9,012	P 9,861	**P 6,306**	P 6,316

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance. Miscellaneous account includes various deposits, advance rentals, service provider fund and other assets.

15.1 Assets Held-for-Sale and Disposal Group

Assets held-for-sale represents real and other properties that are approved by management to be immediately sold. These mainly include real properties, automobiles and equipment foreclosed by the Parent Company, RSB and RCBC LFC in settlement of loans.

In 2015, RSB classified a portion of investment properties amounting to P1,351 as assets held-for-sale (see Note 14) since the carrying amount of those properties will be recovered principally through a sale transaction. The properties were readily available for immediate sale in its present condition and that management believes that the sale was highly probable at the time of reclassification. In June 2017, the properties were sold to a third party with total consideration of P1,385; of which P396 and P989 (present value is P742) were in the form of cash and note receivable, respectively (see Note 11).

In 2013, the Parent Company entered into a joint venture agreement with a third party developer to develop certain investment properties (see Note 14) for the purpose of recovering the cost through eventual sale which led to the reclassification of the properties amounting to P337 as assets held-for-sale. This joint arrangement is accounted for as a jointly controlled operation as there was no separate entity created under this joint venture agreement. The joint venture agreement stipulates that the Parent Company shall contribute parcels of land and the co-venturer shall be responsible for the planning, conceptualization, design, construction, financing and marketing of units to be constructed on the properties. In 2017, the joint venture agreement was terminated and both parties entered into a contract of sale, with the joint venturer property developer purchasing the properties contributed by the Parent Company at a consideration of P551 resulting in a gain from sale of P198, which is recognized as part of Gains on assets sold under Miscellaneous Income account in the 2017 statement of profit or loss (see Note 25.1). The outstanding receivables related to this transaction as of December 31, 2017 amounted to P463 and is presented as part of Accounts receivables under Loans and Receivables account in the 2017 statement of financial position (see Note 11).

In 2009, in accordance with the letter received by RSB from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements. The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of the BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013:

(a) Goldpath
(b) Eight Hills
(c) Crescent Park
(d) Niceview
(e) Lifeway
(f) Gold Place
(g) Princeway
(h) Greatwings
(i) Top Place
(j) Crestview
(k) Best Value

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares was approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.4).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. As the Group is in the process of liquidating the operations of those SPCs, which is expected to be completed within 2018, the carrying amounts of the real properties of those SPCs subject for liquidation are accounted for under PFRS 5, hence, classified as assets held-for-sale.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2017 and 2016 is shown below.

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 960**	P 936	**P 850**	P 786
Additions	**304**	294	**267**	270
Amortization	**(287)**	(269)	**(243)**	(206)
Balance at end of year	**P 977**	P 960	**P 874**	P 850

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Goodwill

The goodwill recognized by the Group as of December 31, 2017 and 2016 pertains to the following:

RSB	P 268
Rizal Microbank	158
	426
Allowance for impairment	(158)
	P 268

RSB recognized goodwill arising from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of RSB.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2017 and 2016, RSB engaged a third party consultant to perform an independent impairment testing of goodwill. On the basis of the report of the third party consultant dated January 28, 2018 and January 30, 2017 with valuation date as of the end of 2017 and 2016, respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank was fully provided with impairment in 2011.

15.4 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.5 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country. This account also includes the excess of the total cost of investment over the allocated net assets acquired by the Parent Company from RCBC JPL.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized as follows:

		Group		Parent Company	
	Notes	**2017**	2016	**2017**	2016
Balance at beginning of year					
Loans and receivables	11	**P 7,411**	P 7,040	**P 4,792**	P 4,825
Investment properties	14	**34**	70	**-**	-
Other resources	15	**288**	240	**1**	8
		7,733	7,350	**4,793**	4,833
Impairment losses:					
Loans and receivables	11	**2,076**	1,856	**1,086**	1,040
Other resources	15	**79**	(86)	**78**	(184)
		2,155	1,770	**1,164**	856
Charge-offs and other adjustments during the year		**(1,646)**	(1,387)	**(1,013)**	(1,327)
		P 509	P 383	**P 151**	(P 471)
Balance at end of year					
Loans and receivables	11	**P 7,993**	P 7,411	**P 4,942**	P 4,792
Investment properties	14	**58**	34	**-**	-
Other resources	15	**191**	288	**2**	1
		P 8,242	P 7,733	**P 4,944**	P 4,793

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group		Parent Company	
	2017	2016	**2017**	2016
Demand	**P 51,996**	P 42,053	**P 40,857**	P 33,027
Savings	**165,187**	162,926	**141,160**	140,921
Time	**161,727**	136,217	**97,148**	74,336
Long-term Negotiable Certificate of Deposits (LTNCD)	**9,502**	11,881	**9,502**	11,881
	P 388,412	P 353,077	**P 288,667**	P 260,165

The Parent Company's LTNCDs as of December 31, 2017 and 2016 are as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2017	Outstanding Balance 2016
August 11, 2017	February 11, 2023	3.75%	**P 2,502**	P -
December 19, 2014	June 19, 2020	4.13%	**2,100**	2,100
November 14, 2013	May 14, 2019	3.25%	**2,860**	2,860
November 14, 2013	May 14, 2019	0.00%	**2,040**	1,970
May 7, 2012	November 7, 2017	5.25%	**-**	1,150
December 29, 2011	June 29, 2017	5.25%	**-**	2,033
December 29, 2011	June 29, 2017	0.00%	**-**	1,768
			P 9,502	P 11,881

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes. As of December 31, 2017 and 2016, unamortized debt issue cost amounted to P20 and P8, respectively. Amortization of debt issue cost of P3 in 2017 and P2 both in 2016 and 2015, respectively, is recorded as part of Interest expenses in the statements of profit or loss.

The maturity profile of the deposit on bills payable liabilities follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Within one year	**P 71,895**	P 66,733	**P 53,549**	P 50,604
One year to more than five years	**13,739**	10,523	**12,546**	9,786
Non-maturing	**302,778**	275,821	**222,572**	199,775
	P 388,412	P 353,077	**P 288,667**	P 260,165

Deposit liabilities, aside from LTNCDs, bear annual interest rates ranging from 0.24% to 1.77% in 2017, 0.13% to 1.38% in 2016, and 0.15% to 1.00% in 2015. Deposit liabilities are stated at amounts they are to be paid which approximate the market value.

Under existing BSP regulations, non-FCDU deposit liabilities, including tax exempt long-term Negotiable Certificate of Time Deposits, of the Parent Company is subject to reserve requirement equivalent to 20% in 2017 and 2016, while RSB and Rizal Microbank are subject to reserve requirement equivalent to 8% in 2017 and 2016. Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent to 6% in 2017 and 2016.

As of December 31, 2017 and 2016, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 753, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P55,386 and P54,069 for the Group and P46,986 and P38,071 for the Parent Company as of December 31, 2017 and 2016, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group				Parent Company			
		2017		2016		**2017**		2016
Foreign banks	**P**	**33,102**	P	26,985	**P**	**33,102**	P	26,985
Local banks		**10,862**		10,548		**3,495**		4,723
Others		**3**		110		**3**		4
	P	**43,967**	P	37,643	**P**	**36,600**	P	31,712

The maturity profile of bills payable follows:

	Group				Parent Company			
		2017		2016		**2017**		2016
Within one year	**P**	**33,841**	P	15,180	**P**	**29,915**	P	10,749
Beyond one year but within five years		**6,379**		20,970		**5,185**		19,470
More than five years		**3,747**		1,493		**1,500**		1,493
	P	**43,967**	P	37,643	**P**	**36,600**	P	31,712

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

	2017	2016	2015
Group			
Peso denominated	**1.06% - 4.50%**	0.88% - 2.98%	0.02% - 2.00%
Foreign currency denominated	**1.06% - 3.46%**	0.10% - 2.86%	0.02% - 2.67%
Parent Company			
Foreign currency denominated	**1.06% - 3.46%**	0.10% - 2.86%	0.02% - 2.67%

The total interest expense incurred by the Group on the bills payable amounted to P891 in 2017, P931 in 2016, and P302 in 2015.

As of December 31, 2017 and 2016, certain bills payable availed under repurchase agreements are secured by the Group's and Parent Company's investment securities (see Note 10.3).

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2017	Outstanding Balance 2016
November 2, 2015	February 2, 2021	3.45%	$ 320	**P 15,977**	P 15,869
January 21, 2015	January 22, 2020	4.25%	243	**12,083**	12,053
January 30, 2012	January 31, 2017	5.25%	275	**-**	13,673
			$ 838	**P 28,060**	P 41,595

In November 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The Senior Notes, unless redeemed, will mature on February 2, 2021. As of December 31, 2017 and 2016, the peso equivalent of this outstanding bond issue amounted to P15,977 and P15,869, respectively.

In January 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$243 bearing an interest of 4.25% per annum, payable semi-annually in arrears every January 21 and July 21 of each year, which commenced on July 21, 2015. The Senior Notes, unless redeemed, will mature on January 22, 2020. As of December 31, 2017 and 2016, the peso equivalent of this outstanding bond issue amounted to P12,083 and P12,053, respectively.

In January 2012, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$275 bearing an interest of 5.25% per annum, payable semi-annually in arrears every January 18 and July 18 of each year, which commenced on July 18, 2012. As of December 31, 2016, the peso equivalent of this outstanding bond issue amounted to P13,673. The Senior Notes matured on January 31, 2017.

The interest expense incurred on these bonds payable amounted to P1,155 in 2017, P1,715 in 2016, and P1,262 in 2015. The Group and Parent Company recognized foreign currency exchange losses related to these bonds payable amounting to P118 in 2017, P516 in 2016, and P24 in 2015, which are netted against Foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

20. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7,000 Tier 2 Notes. The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10,000, are as follows:

(a) The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

(c) The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

(d) Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

(e) The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

    (i) it shall reduce the claim on the notes in liquidation;
    (ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
    (iii) partially or fully reduce the interest payments on the notes.

The total interest expense incurred by the Group and Parent Company on the notes amounted to P554 in 2017, P553 in 2016, and P552 in 2015.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Accrued expenses	**P 2,809**	P 3,321	**P 2,171**	P 2,492
Accrued interest	**1,120**	1,263	**838**	1,023
Taxes payable	**256**	239	**209**	118
	P 4,185	P 4,823	**P 3,218**	P 3,633

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable, bonds payable and subordinated debt at the end of each reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

		Group		Parent Company	
	Notes	**2017**	2016	**2017**	2016
Accounts payable	28.5(a), 28.5(c)	**P 6,451**	P 5,210	P **3,735**	P 3,089
Manager's checks		**1,575**	1,108	**835**	586
Bills purchased – contra		**1,079**	721	**1,074**	718
Derivative financial liabilities	10.1	**483**	385	**483**	385
Outstanding acceptances payable		**405**	822	**405**	822
Other credits		**370**	342	**232**	232
Deposit on lease contracts		**342**	167	**-**	-
Withholding taxes payable		**243**	205	**143**	142
Payment orders payable		**193**	167	**181**	144
Sundry credits		**121**	82	**96**	80
Post-employment defined benefit obligation	24.2	**111**	1,735	**33**	1,557
Guaranty deposits		**62**	58	**62**	58
Due to BSP		**39**	33	**39**	30
Miscellaneous		**895**	935	**816**	845
		P 12,369	P 11,970	**P 8,134**	P 8,688

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include Pag-ibig, SSS and PhilHealth premiums, and other amounts due to local banks.

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock of the Parent Company are as follows:

	Number of Shares		
	2017	2016	2015
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Balance at beginning of year	**293,987**	310,145	338,291
Conversion of shares during the year	**(14,994)**	(16,158)	(28,146)
Balance at end of year	**278,993**	293,987	310,145
Common stock – P10 par value			
Authorized – 1,400,000,000 shares			
Balance at beginning of year	**1,399,912,464**	1,399,908,746	1,275,659,728
Conversion of shares during the year	**3,412**	3,718	6,746
Issuances during the year	**-**	-	124,242,272
Balance at end of year	**1,399,915,876**	1,399,912,464	1,399,908,746

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common shares from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total of capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) which will be subscribed out of the increase in the authorized capital. Subject to the relevant regulatory approvals and market condition, the Rights Offer aims to raise up to P15,000 fresh Common Equity Tier 1 capital for the Parent Company.

As of December 31, 2017 and 2016, there are 758 and 779 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P55.35 per share and P33.55 per share as of December 31, 2017 and 2016, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay Life Insurance Corp.	April 2015	124,242,272

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Purchase and Reissuance of Treasury Shares and Issuance of Common Shares

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

Also, on September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

In 2015, the Parent Company issued common shares to Cathay Life Insurance Corporation at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iv) entering into a shareholders agreement with PMMIC and the Parent Company.

23.3 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
October 27, 2014	0.0564	0.02	December 21, 2014	October 27, 2014	December 19, 2014	January 28, 2015
October 27, 2014	*	221.57	*	October 27, 2014	March 20, 2015	April 27, 2015
January 26, 2015	0.0564	0.02	March 21, 2015	January 26, 2015	March 20, 2015	March 27, 2015
March 30, 2015	0.6000	839.95	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
March 30, 2015	0.6000	0.19	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
April 27, 2015	0.0567	0.02	June 21, 2015	April 27, 2015	September 11, 2015	September 22, 2015
July 27, 2015	0.0583	0.02	September 21, 2015	July 27, 2015	September 11, 2015	September 24, 2015
November 4, 2015	0.0593	0.02	December 21, 2015	November 4, 2015	**	December 22, 2015
January 25, 2016	0.6495	0.02	March 21, 2016	January 25, 2016	**	March 23, 2016
April 25, 2016	0.0660	0.02	June 21, 2016	April 25, 2016	June 16, 2016	June 21, 2016
April 25, 2016	0.7200	1,007.94	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
April 25, 2016	0.7200	0.21	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
July 25, 2016	0.0676	0.02	September 21, 2016	July 25, 2016	September 16, 2016	October 11, 2016
November 2, 2016	0.0724	0.02	December 21, 2016	November 2, 2016	January 13, 2017	January 17, 2017
January 30, 2017	0.0749	0.02	March 21, 2017	January 30, 2017	March 22, 2017	March 24, 2017
April 24, 2017	0.0807	0.02	June 21, 2017	April 24, 2017	April 26, 2017	June 23, 2017
April 24, 2017	0.5520	772.75	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
April 24, 2017	0.5520	0.15	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
July 31, 2017	0.0840	0.02	September 21, 2017	July 31, 2017	September 5, 2017	September 22, 2017
October 30, 2017	0.0840	0.02	December 21, 2017	October 30, 2017	December 12, 2017	December 22, 2017

** Pertains to cash dividends on hybrid perpetual securities*
*** Not applicable, BSP approval not anymore required during these periods*

In 2015, the BSP, through the Monetary Board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P9,839 and P8,539 as of December 31, 2017 and 2016, respectively, is not currently available for distribution as dividends.

23.4 Other Reserves

On December 23, 2013, the SPCs' BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus (see Note 15.1).

As of December 31, 2017 and 2016, this account consists of reserves arising from the acquisition of RCBC LFC and Rizal Microbank for a total of P97 and P86, respectively.

23.5 Hybrid Perpetual Securities

On October 30, 2006, the Parent Company received the proceeds from the issuance of Non-Cumulative Step-Up Callable Perpetual Securities ("Perpetual Securities") amounting to US$98 million, net of fees and other charges. Net proceeds were used to strengthen the CAR of the Parent Company, repay certain indebtedness and enhance its financial stability and for general corporate purposes. The issuance of the Perpetual Securities was approved by the BOD on June 7, 2006.

The Perpetual Securities represent US$100 million, 9.875%, non-cumulative step-up callable perpetual securities issued pursuant to a trust deed dated October 27, 2006 between the Parent Company and Bank of New York – London Branch, each with a liquidation preference of US$1 thousand per US$1 thousand in principal amount of the Perpetual Securities. The actual listing and quotation of the Perpetual Securities in a minimum board lot size of US$1 hundred in the Singapore Exchange Securities Trading Limited ("SGX-ST") was done on November 1, 2006. The Perpetual Securities were issued pursuant to BSP Circular No. 503 dated December 22, 2005 allowing the issuance of perpetual, non-cumulative securities up to US$125 million which are eligible to qualify as Hybrid Tier 1 Capital.

The significant terms and conditions of the issuance of the Perpetual Securities, among others, follow:

(a) Interest (effectively dividends) will be paid from and including October 27, 2006 (the "issue date") to (but excluding) October 27, 2016 (the "First Optional Redemption Date") at a rate of 9.875% per annum payable semi-annually in arrears from April 27, 2007 and, thereafter at a rate reset and payable quarterly in arrears, of 7.02% per annum above the then prevailing LIBOR for three-month US dollar deposits;

(b) Except as described below, interest (dividends) will be payable on April 27 and October 27 in each year, commencing on April 27, 2007 and ending on the First Optional Redemption Date, and thereafter (subject to adjustment for days which are not business days) on January 27, April 27, July 27, October 27 in each year commencing on January 27, 2016;

(c) The Parent Company may, in its absolute discretion, elect not to make any interest (dividends) payment in whole or in part if the Parent Company has not paid or declared a dividend on its common stocks in the preceding financial year; or determines that no dividend is to be paid on such stocks in the current financial year. Actual payments of interest (dividends) on the hybrid perpetual securities are shown in Note 23.3;

(d) The rights and claims of the holders will be subordinated to the claims of all senior creditors (as defined in the conditions) and the holders of any priority preference stocks (as defined in the conditions), in that payments in respect of the securities are conditional upon the Parent Company being solvent at the time of payment and in that no payments shall be due except to the extent the Parent Company could make such payments and still be solvent immediately thereafter;

(e) The Perpetual Securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation (PDIC) and they may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates;

(f) The Parent Company undertakes that, if on any Interest Payment Date, payment of all Interest Payments scheduled to be made on such date is not made in full, it shall not declare or pay any distribution or dividend or make any other payment on, any junior share capital or any parity security, and it shall not redeem, repurchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities, other than in the case of any partial interest payment, pro rata payments on, or redemptions of, parity securities the dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity as aforesaid unless and until a payment is made to the holders in an amount equal to the unpaid amount (if any) of interest payments in respect of interest periods in the twelve months including and immediately preceding the date such interest payment was due and the BSP does not otherwise object; and,

(g) The Parent Company, at its option, may redeem the Perpetual Securities at the fixed or final redemption date although the Parent Company may, having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and the Holders, redeem all (but not some only) of the securities: (i) on the first optional redemption date; and, (ii) on each interest payment date thereafter, at an amount equal to the liquidation preference plus accrued interest.

On March 30, 2015, the Parent Company's BOD approved the redemption of its hybrid perpetual securities at a premium amounting to P723 million.

23.6 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account are shown below.

	Group			
	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2017	P 2,128	P 86	(P 1,593)	P 621
Actuarial gains on defined benefit plan	-	-	1,514	1,514
Fair value gain on financial assets at FVOCI	(156)	-	-	(156)
Translation adjustments on foreign operation	-	(1)	-	(1)
Other comprehensive income (loss)	(156)	(1)	1,514	1,357
Transfer from fair value gains on financial asset at FVOCI to Surplus	(4)	-	-	(4)
Balance as of December 31, 2017	**P 1,968**	**P 85**	**(P 79)**	**P 1,974**

	Group			
	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2016	P 689	P 61	(P 1,268)	(P 518)
Fair value gains on financial assets at FVOCI	1,442	-	-	1,442
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Translation adjustments on foreign operation	-	25	-	25
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2016	P 2,128	P 86	(P 1,593)	P 621
Balance at January 1, 2015	P 835	P 71	(P 224)	P 682
Actuarial losses on defined benefit plan	-	-	(1,044)	(1,044)
Fair value losses on financial assets at FVOCI	(143)	-	-	(143)
Translation adjustments on foreign operation	-	(10)	-	(10)
Other comprehensive loss	(143)	(10)	(1,044)	(1,197)
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2015	P 689	P 61	(P 1,268)	(P 518)

	Parent Company			
	Revaluation of Financial Assets at FVOCI	**Accumulated Translation Adjustments on Foreign Operations**	**Actuarial Gains (Losses) on Defined Benefit Plan**	**Total**
Balance as of January 1, 2017	P 2,020	P 86	(P 1,485)	P 621
Actuarial gains on defined benefit plan	-	-	1,514	1,514
Fair value gains on financial assets at FVOCI	(156)	-	-	(156)
Translation adjustments on foreign operation	-	(1)	-	(1)
Other comprehensive income (loss)	(156)	(1)	1,514	1,357
Transfer from fair value gains on financial asset at FVOCI to Surplus	(4)	-	-	(4)
Balance as of December 31, 2017	**P 1,860**	**P 85**	**P 29**	**P 1,974**
Balance as of January 1, 2016	P 581	P 61	(P 1,160)	(P 518)
Fair value gains on financial assets at FVOCI	1,442	-	-	1,442
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Translation adjustments on foreign operation	-	25	-	25
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2016	P 2,020	P 86	(P 1,485)	P 621

	Parent Company			
	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance at January 1, 2015	P 727	P 71	(P 116)	P 682
Actuarial losses on defined benefit plan	-	-	(1,044)	(1,044)
Fair value losses on financial assets at FVOCI	(143)	-	-	(143)
Translation adjustments on foreign operation	-	(10)	-	(10)
Other comprehensive loss	(143)	(10)	(1,044)	(1,197)
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2015	P 581	P 61	(P 1,160)	(P 518)

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group		
	2017	2016	2015
Short-term employee benefits	**P 5,663**	P 5,039	P 4,370
Post-employment defined benefits	**374**	369	361
	P 6,037	P 5,408	P 4,731

	Parent Company		
	2017	2016	2015
Short-term employee benefits	**P 3,904**	P 3,386	P 2,924
Post-employment defined benefits	**307**	280	266
	P 4,211	P 3,666	P 3,190

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's and RSB's Trust Departments, covering all regular full-time employees. The Parent Company's and RSB's Trust Departments manage the fund in coordination with the Parent Company's Retirement Committee, Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to 1.25 to 2 months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2017 and 2016.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Present value of the obligation	**P 4,995**	P 4,953	**P 4,126**	P 4,156
Fair value of plan assets	**(4,891)**	(3,218)	**(4,100)**	(2,599)
Effect of asset ceiling test	**7**	-	**7**	-
Deficiency of plan assets	**P 111**	P 1,735	**P 33**	P 1,557

The Group's and Parent Company's post-employment defined benefit obligation as of December 31, 2017 and 2016 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 4,953**	P 4,859	**P 4,156**	P 4,037
Current service cost	**374**	369	**307**	280
Interest expense	**274**	241	**230**	208
Remeasurements – actuarial losses (gains) arising from changes in:				
– financial assumptions	**(230)**	(73)	**(206)**	(63)
– experience adjustments	**(113)**	2	**(125)**	18
– demographic assumptions	**-**	(6)	**-**	-
Benefits paid by the plan	**(263)**	(439)	**(236)**	(324)
Balance at end of year	**P 4,995**	P 4,953	**P 4,126**	P 4,156

The movements in the fair value of plan assets are presented below.

	Group		Parent Company	
	2017	2016	**2017**	2016
Balance at beginning of year	**P 3,218**	P 3,585	**P 2,599**	P 2,898
Interest income	**186**	179	**149**	148
Return on plan assets (excluding amounts included in net interest)	**1,174**	(402)	**1,167**	(394)
Contributions paid into the plan	**576**	295	**421**	271
Benefits paid by the plan	**(263)**	(439)	**(236)**	(324)
Balance at end of year	**P 4,891**	P 3,218	**P 4,100**	P 2,599

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	Group		Parent Company	
	2017	2016	**2017**	2016
Cash and cash equivalents	**P 402**	P 226	**P 311**	P 72
Debt securities:				
Corporate debt securities	**299**	291	**-**	51
Government bonds	**127**	114	**4**	4
Equity securities:				
Quoted equity securities				
Financial intermediaries	**3,354**	1,900	**3,124**	1,900
Transportation and communication	**208**	194	**208**	192
Electricity, gas and water	**170**	119	**169**	115
Diversified holding companies	**26**	31	**22**	16
Others	**22**	58	**1**	1
Unquoted long-term equity investments	**169**	171	**169**	168
UITF	**107**	94	**85**	76
Investment properties	**6**	4	**6**	4
Loans and receivables	**1**	15	**1**	-
Other investments	**-**	1	**-**	-
	P 4,891	P 3,218	**P 4,100**	P 2,599

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The returns on plan assets are as follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Fair value gains (losses)	**P 1,157**	(P 402)	**P 1,167**	(**P** 394)
Interest income	**186**	179	**149**	148
Actual returns	**P 1,343**	(P 223)	**P 1,316**	(P 246)

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

	Group		
	2017	2016	2015
Reported in profit or loss:			
Current service cost	**P 374**	P 369	P 361
Net interest expense (income)	**88**	62	(51)
	P 462	P 431	P 310

	Group		
	2017	2016	2015
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 230**	P 73	P 73
Experience adjustments	**113**	(2)	(127)
Demographic assumptions	**-**	6	22
Effect of asset ceiling test	**(7)**	-	-
Return on plan assets (excluding amounts included in net interest)	**1,174**	(402)	(1,013)
	P 1,510	(P 325)	(P 1,045)

	Parent Company		
	2017	2016	2015
Reported in profit or loss:			
Current service costs	**P 307**	P 280	P 266
Net interest expense	**81**	60	5
	P 388	P 340	P 271
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 206**	P 63	P 68
Experience adjustments	**125**	(18)	(57)
Effect of asset ceiling	**(7)**	-	-
Return on plan assets (excluding amounts included in net interest)	**1,167**	(394)	(998)
	P 1,491	(P 349)	(P 987)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense – Bills Payable and Other Borrowings or Interest Income Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2017	2016	2015
Group			
Discount rates	**5.48% - 6.00%**	5.00% - 5.60%	5.05% - 5.15%
Expected rate of salary increases	**4.00% - 8.00%**	3.00% - 11.00%	5.00% - 10.00%
Parent Company			
Discount rates	**6.00%**	5.53%	5.15%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back six years for 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 zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

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 plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described in the succeeding pages.

(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 of December 31, 2017 and 2016:

	Group		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2017:			
Discount rate	**+/-1 %**	**(P 323)**	**P 403**
Salary growth rate	**+/-1 %**	**480**	**(388)**
2016:			
Discount rate	+/- 1%	(P 166)	P 92
Salary growth rate	+/- 1%	186	(71)

	Parent Company		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2017:			
Discount rate	**+/- 1%**	**(P 391)**	**P 456**
Salary growth rate	**+/- 1%**	**413**	**(363)**
2016:			
Discount rate	+/- 1%	(P 153)	P 172
Salary growth rate	+/- 1%	147	(133)

The sensitivity analysis 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 sensitivity analysis, the present value of the defined benefit obligation at the end of each reporting period has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2017 and 2016 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P111 and P33 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2017.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		**Parent Company**	
	2017	2016	**2017**	2016
Less than one year	**P 226**	P 139	**P 44**	P 75
More than one year to five years	**1,319**	1,068	**1,094**	888
More than five years to ten years	**2,425**	1,970	**1,984**	1,752
	P 3,970	P 3,177	**P 3,122**	P 2,715

The Group and Parent Company expects to contribute P418 and P318, respectively, to the plan in 2018.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	Group 2017	Group 2016	Group 2015
Rentals	14.2	**P 741**	P 614	P 355
Gains on assets sold	11, 14.1, 15.1	**441**	120	281
Dividend income	10.2	**234**	449	237
Recoveries from written off assets		**187**	161	169
Others		**290**	254	174
		P 1,893	P 1,598	P 1,216

	Notes	Parent Company 2017	Parent Company 2016	Parent Company 2015
Rentals	14.2, 28.5(a)	**P 419**	P 407	P 375
Gains on assets sold	14.1	**378**	139	162
Dividend income	10.2	**196**	307	87
Others		**136**	231	215
		P 1,129	P 1,084	P 839

Miscellaneous income classified as Others includes rebates, penalty charges and other income that cannot be appropriately classified under any of the foregoing income accounts.

25.2 Miscellaneous Expenses

	Note	Group 2017	Group 2016	Group 2015
Credit card-related expenses		**P 884**	P 663	P 584
Insurance		**759**	738	656
Communication and information services		**447**	450	443
Management and other professional fees		**368**	408	529
Advertising and publicity		**323**	276	289
Transportation and travel		**214**	206	295
Banking fees		**193**	194	190
Stationery and office supplies		**149**	132	129
Other outside services		**130**	126	112
Donation and charitable contribution		**51**	38	61
Representation and entertainment		**22**	45	94
Litigation/assets acquired expenses		**166**	385	247
Membership fees		**19**	21	19
Others	29.6	**1,153**	1,788	1,027
		P 4,878	P 5,470	P 4,675

	Notes	Parent Company 2017	2016	2015
Credit card-related expenses		**P 884**	P 663	P 584
Insurance	28.5(c)	**564**	594	527
Service and processing fees		**697**	501	511
Communication and information services		**328**	281	258
Advertising and publicity		**244**	206	191
Management and other professional fees		**188**	217	175
Banking fees		**148**	144	141
Other outside services		**115**	113	100
Transportation and travel		**110**	93	159
Stationery and office supplies		**92**	86	81
Donations and charitable contributions		**51**	35	56
Litigation/assets acquired expense		**50**	181	81
Representation and entertainment		**22**	13	41
Membership fees		**19**	18	15
Others	29.6	**543**	1,411	476
		P 4,055	P 4,556	P 3,396

The Group's other expenses are composed of freight, employee activities expenses, fines and penalties, and seasonal giveaways. The Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P36, P55 and P53 in 2017, 2016 and 2015 respectively (see Note 28.5).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2017, 2016 and 2015, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2017	2016	2015
Current tax expense:			
RCIT	**P 711**	P 414	P 459
Final tax	**203**	177	326
Excess MCIT over RCIT	**2**	190	46
	916	781	831
Application of MCIT	**(356)**	-	-
	560	781	831
Deferred tax expense (income) relating to origination and reversal of temporary differences	**281**	(955)	(1,138)
	P 841	(P 174)	(P 307)

	Parent Company		
	2017	2016	2015
Current tax expense:			
RCIT	**P 563**	P 140	P 161
Final tax	**147**	173	254
Excess MCIT over RCIT	**-**	190	46
	710	503	461
Application of MCIT	**(356)**	-	-
	354	503	461
Deferred tax expense (income) relating to origination and reversal of temporary differences	**343**	(842)	(443)
	P 697	(P 339)	P 18

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

	Group		
	2017	2016	2015
Tax on pretax profit at 30%	**P 1,545**	P 1,109	P 1,446
Adjustments for income subjected to lower income tax rates	**(434)**	(180)	(142)
Tax effects of:			
Non-taxable income	**(786)**	(845)	(539)
Non-deductible expenses	**595**	520	356
Recognition of previously unrecognized deferred tax asset	**-**	(865)	(992)
Utilization of MCIT	**356**	-	-
FCDU income	**(306)**	(388)	(125)
Unrecognized temporary differences	**(130)**	97	129
Utilization of NOLCO	**1**	374	(443)
Others	**-**	4	3
	P 841	(P 174)	(P 307)

	Parent Company		
	2017	2016	2015
Tax on pretax profit at 30%	**P 1,502**	P 1,059	P 1,544
Adjustments for income subjected to lower income tax rates	**(384)**	(118)	(108)
Tax effects of:			
Non-taxable income	**(899)**	(889)	(548)
Non-deductible expenses	**531**	420	423
Recognition of previously unrecognized deferred tax asset	**-**	(797)	(992)
Utilization of MCIT	**356**	-	-
FCDU income	**(275)**	(388)	(125)
Unrecognized temporary differences	**(134)**	-	(282)
Utilization of NOLCO	**-**	374	(443)
	P 697	(P 339)	P 18

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2017 and 2016 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2017	2016	**2017**	2016	2015
Allowance for impairment	**P 1,610**	P 1,619	**(P 9)**	P 867	P 695
Provision for credit card reward payments	**127**	105	**22**	105	-
Excess MCIT	**60**	356	**(296)**	356	-
Post-employment benefit obligation	**52**	60	**(8)**	39	-
Deferred rent – PAS 17	**30**	17	**13**	16	-
NOLCO	**-**	-	**-**	(443)	443
Others	**17**	20	**(3)**	15	-
Deferred tax assets	**P 1,896**	P 2,177			
Deferred tax income (expense) – net			**(P 281)**	P 955	P 1,138

In 2015, the Parent Company recognized deferred tax asset amounting to P443 on a portion of its unutilized NOLCO amounting to P1,476. The total unutilized NOLCO amounted to P1,823 as of December 31, 2015. In 2016, the Parent Company utilized a portion of the remaining NOLCO amounting to P1,246, while the balance of P577 expired.

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2017 and 2016 is shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2017	2016	**2017**	2016	2015
Allowance for impairment	**P 720**	P 780	**(P 60)**	P 780	P -
Provision for credit card reward payments	**127**	105	**22**	105	-
Post-employment benefit obligation	**52**	18	**34**	18	-
Deferred rent – PAS 17	**30**	17	**13**	17	-
Excess MCIT	**-**	356	**(356)**	356	-
NOLCO	**-**	-	**-**	(443)	443
Others	**13**	9	**4**	9	-
Deferred tax assets	**P 942**	P 1,285			
Deferred tax income (expense) – net			**(P 343)**	P 842	P 443

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2017	2016	**2017**	2016
Allowance for impairment	**P 925**	P 2,169	**P 763**	P 629
Excess MCIT	**60**	6	**-**	-
NOLCO	**51**	77	**-**	-
Post-employment benefit obligation	**24**	478	**-**	446
Advance rental	**1**	2	**-**	-
	P 1,061	P 2,732	**P 763**	P 1,075

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The details of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2016	P 190	P 20	P -	P 170	2019
2014	67	-	67	-	
	P 257	**P 20**	**P 67**	**P 170**	

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2017	P 56	P -	P -	P 56	2020
2016	194	190	-	4	2019
2015	46	46	-	-	
2014	122	120	2	-	
	P 418	**P 356**	**P 2**	**P 60**	

The P356 available MCIT applied by the Group in 2017 solely pertains to the MCIT of the Parent Company as it has generated net taxable income and is liable for RCIT for the year ended December 31, 2017.

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P91,585 and P84,804 as of December 31, 2017 and 2016, respectively. The Parent Company's total trust resources amounted to P64,395 and P61,260 as of December 31, 2017 and 2016, respectively (see Note 29.1).

In connection with the trust operations of the Parent Company and RSB, time deposit placements and government securities with a total face value of P953 for the Group and P704 for the Parent Company were deposited with the BSP in 2016. On October 27, 2016, the BSP issued a memorandum notifying the approval of Monetary Board on the discontinuance of access of trust entities to the BSP deposit facilities effective on July 1, 2017. The BSP mandates that the BSP deposit facilities should serve as a monetary policy instrument for managing domestic liquidity in the financial system and these are not intended to become an investment outlet of banks and trust entities. Consequently, the Group has withdrawn all its outstanding deposits and placements with BSP in 2017.

In compliance with existing BSP regulations, 10% of the Parent Company's and RSB's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's and RSB's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the statements of changes in equity.

The Group and the Parent Company transferred from Surplus to Reserve for Trust Business P21 and P16, respectively, in 2017; P27 and P22, respectively, in 2016; and, P22 and P15, respectively, in 2015.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2017, 2016 and 2015 is presented below.

		Group					
		2017		2016		2015	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 316**	(P 55)	P 371	(P 537)	P 426
Deposit liabilities	28.2	**(751)**	**480**	(1,785)	1,231	1,545	3,018
Interest expense on deposits	28.2	**5**	**-**	6	-	5	-
Issuance of shares of stock	23.2	**-**	**-**	-	-	7,729	-
Interest income from loans and receivables	28.2	**16**	**-**	21	-	29	-
Associates							
Deposit liabilities	28.2	**266**	**277**	(53)	11	(60)	65
Interest expense on deposits	28.2	**3**	**-**	5	-	3	-
Dividend	12	**59**	**-**	124	-	76	-
Related Parties Under Common Ownership							
Loans and receivables	28.2	**14**	**14**	(541)	-	(1,966)	541
Deposit liabilities	28.2	**2,695**	**2,851**	(2,124)	156	(596)	2,282
Interest expense on deposits	28.2	**9**	**-**	16	-	10	-
Occupancy and equipment related expenses	28.5(a)	**715**	**-**	926	-	829	9
Miscellaneous expenses – others	25.2	**67**	**-**	52	-	54	-
Interest income from loans and receivables	28.1	**-**	**-**	19	-	35	-

		Group					
		2017		2016		2015	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**P 210**	**P 211**	(P 1)	P 1	(P 3)	P 4
Deposit liabilities	28.2	**43**	**286**	(67)	243	(287)	176
Interest income from loans and receivables	28.1	**2**	**-**	-	-	-	-
Interest expense on deposits	28.1	**3**	**-**	1	-	3	-
Salaries and employee benefits	28.5(d)	**458**	**-**	376	-	356	-
Other Related Interests							
Loans and receivables	28.1	**5,565**	**10,106**	(2,855)	4,541	(249)	1,686
Deposit liabilities	28.2	**2,179**	**2,294**	(361)	115	78	601
Interest income from loans and receivables	28.1	**560**	**-**	567	-	103	-
Interest expense on deposits	28.2	**16**	**-**	3	-	2	-

		Parent Company					
		2017		2016		2015	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.2	**(P 55)**	**P 316**	(P 55)	P 371	(P 537)	P 426
Deposit liabilities	28.2	**(751)**	**480**	(1,785)	1,231	1,545	3,018
Interest expense on deposits	28.2	**5**	**-**	6	-	5	-
Issuance of shares of stock	23.2	**-**	**-**	-	-	7,729	-
Interest income from loans and receivables	28.1	**16**	**-**	21	-	29	-

		Parent Company					
		2017		2016		2015	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries							
Loans and receivable	28.1	**(P 222)**	**P -**	P -	P 222	P 142	P 222
Deposit liabilities	28.2	**(2,155)**	**443**	553	2,598	26	2,065
Interest income from loans and receivable	23.1	**-**	**-**	-	-	3	-
Interest expense on deposits	28.2	**1**	**-**	5	-	6	-
Dividend	12	**315**	**-**	1,406	-	602	-
Rental income	28.5(a) 28.5(b)	**191**	**-**	186	-	175	6
Occupancy and equipment-related expenses	28.5(a)	**13**	**-**	186	-	153	3
Service and processing fees	28.5(c)	**499**	**-**	460	29	410	33
Sale of investment securities	28.3	**175**	**-**	810	-	1,236	-
Purchase of investment securities	28.3	**5**	**-**	601	-	846	-
Capital subscriptions	12.1	**-**	**-**	-	-	750	500
Assignment of receivables	11, 28.1	**(10)**	**192**	(20)	202	222	222
Associates							
Deposit liabilities	28.2	**266**	**277**	(53)	11	(60)	65
Interest expense on deposits	28.2	**3**	**-**	5	-	3	-
Dividend		**59**	**-**	124	-	76	-

		Parent Company					
		2017		2016		2015	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Related Parties Under Common Ownership							
Loans and receivables	28.1	**P 14**	**P 14**	(P 541)	P -	(P 1,966)	P 541
Deposit liabilities	28.2	**(2,584)**	**2,740**	(2,124)	156	(596)	2,282
Interest income from loans and receivables	28.1	**-**	**-**	19	-	35	-
Interest expense on deposits	28.2	**8**	**-**	15	-	10	-
Occupancy and equipment-related expenses	28.5(d)	**715**	**-**	926	-	829	-
Miscellaneous expenses – others	25.2	**67**	**-**	52	-	54	-
Key Management Personnel							
Loans and receivables	28.2	**196**	**197**	(1)	1	(5)	2
Deposit liabilities	28.2	**43**	**286**	67	243	(287)	176
Interest income from loans and receivables	28.1	**2**	**-**	-	-	-	-
Interest expense on deposits	28.2	**3**	**-**	1	-	3	-
Salaries and employee benefits	28.5(d)	**328**	**-**	271	-	221	-
Other Related Interests							
Loans and receivables	28.1	**5,565**	**10,106**	2,855	4,541	63	1,686
Deposit liabilities	28.2	**2,145**	**2,260**	(361)	115	-	476
Interest income from loans and receivables	28.1	**560**	**-**	567	-	103	-
Interest expense on deposits	28.2	**16**	**-**	3	-	2	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2017, 2016 and 2015 are as follows:

	Group			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2017:				
Stockholders	P -	P 55	P 16	P 316
Related parties under common ownership	210	196	-	14
Key management personnel	691	481	2	211
Other related interests	8,267	2,702	560	10,106
	P 9,168	**P 3,434**	**P 578**	**P 10,647**
2016:				
Stockholders	P -	P 55	P 21	P 371
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 7,332	P 5,074	P 607	P 4,913
2015:				
Stockholders	P -	P 537	P 29	P 426
Related parties under common ownership	40	2,006	35	541
Key management personnel	2	5	-	4
Other related interests	400	649	103	1,686
	P 442	P 3,197	P 167	P 2,657

	Parent Company			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2017:				
Stockholders	P -	P 55	P 16	P 316
Subsidiaries	-	222	-	-
Related parties under common ownership	210	196	-	14
Key management personnel	663	467	2	197
Other related interests	8,267	2,702	560	10,106
	P 9,140	**P 3,642**	**P 578**	**P 10,633**

Related Party Category		Parent Company Issuances		Repayments		Interest Income		Loans Outstanding
2016:								
Stockholders	P	-	P	55	P	21	P	371
Subsidiaries		1,276		1,276		-		222
Related parties under common ownership		-		541		19		-
Key management personnel		1		2		-		1
Other related interests		7,331		4,476		567		4,541
	P	8,608	P	6,350	P	607	P	5,135
2015:								
Stockholders	P	-	P	536	P	29	P	426
Subsidiaries		5,754		5,612		3		222
Related parties under common ownership		40		2,006		35		541
Key management personnel		-		5		-		2
Other related interests		400		337		103		1,686
	P	6,194	P	8,496	P	170	P	2,877

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under 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 Group and Parent Company and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group and Parent Company. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2017 and 2016, the Group and Parent Company is in compliance with these regulatory requirements.

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

		Group				Parent Company		
		2017		2016		**2017**		2016
Total outstanding DOSRI loans	**P**	**542**	P	587	**P**	**509**	P	553
Unsecured DOSRI		**71**		60		**61**		49
Past due DOSRI		**1**		-		**1**		-
Non-accruing DOSRI		**1**		-		**1**		-
Percent of DOSRI loans to total loan portfolio		**0.15%**		0.19%		**0.19%**		0.24%
Percent of unsecured DOSRI loans to total DOSRI loans		**13.10%**		10.22%		**11.98%**		8.86%
Percent of past due DOSRI loans to total DOSRI		**0.13%**		0.05%		**0.14%**		0.04%
Percent of non-accruing DOSRI loans to total DOSRI loans		**0.13%**		0.05%		**0.14%**		0.04%

In 2017, the Group recognized impairment loss on certain loans and receivables from DOSRI amounting to P.06 and is recognized as part of Impairment Losses account in the 2017 statement of profit or loss. There are no impairment losses incurred in 2016 and 2015.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2017, 2016 and 2015 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Associates	32,335	32,069	3	277
Related parties under common ownership	14,007	11,312	9	2,851
Key management personnel	416	373	3	286
Other related interest	213,907	211,728	16	2,294
	P 285,771	**P 281,339**	**P 36**	**P 6,188**
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Associates	35,592	35,645	5	11
Related parties under common ownership	1,287,730	1,289,854	15	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 2,400,320	P 2,404,576	P 30	P 1,756
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,365	4,078	3	176
Other related interests	54,586	54,508	2	601
	P 250,250	P 248,996	P 23	P 6,142

	Parent Company			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Subsidiaries	100,523	102,678	1	443
Associates	32,335	32,069	3	277
Related parties under common ownership	9,058	6,474	8	2,740
Key management personnel	416	373	3	286
Other related interests	136,192	134,047	16	2,260
	P 303,630	**P 301,498**	**P 36**	**P 6,486**

Related Party Category	Parent Company Deposits	Withdrawals	Interest Expense	Outstanding Balance
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Subsidiaries	974,281	973,728	5	2,598
Associates	35,592	35,645	9	11
Related parties under common ownership	1,287,730	1,289,854	16	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 3,374,601	P 3,378,304	P 40	P 4,354
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Subsidiaries	1,342,248	1,342,222	6	2,065
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,508	54,508	2	476
	P 1,592,690	P 1,592,062	P 29	P 8,082

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

28.4 Retirement Fund

The Parent Company and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2017, 2016 and 2015 as follows:

Nature of Transactions	Group Net Amount of Transaction	Group Outstanding Balance	Parent Company Net Amount of Transaction	Parent Company Outstanding Balance
2017:				
Investment in common shares of Parent Company	**(P 6)**	**P 3,125**	**(P 6)**	**P 3,123**
Investment in corporate debt securities	**(47)**	**2**	**(49)**	**-**
Deposits with the Parent Company	**226**	**427**	**239**	**311**
Fair value gains	**1,266**	**-**	**1,266**	**-**
Interest income	**4**	**-**	**4**	**-**

Nature of Transactions	Group: Net Amount of Transaction	Group: Outstanding Balance	Parent Company: Net Amount of Transaction	Parent Company: Outstanding Balance
2016:				
Investment in common shares of Parent Company	P -	P 1,863	P -	P 1,863
Investment in corporate debt securities	(5)	50	-	49
Deposits with the Parent Company	75	201	72	72
Fair value gains	31	-	31	-
Interest income	3	-	3	-
2015:				
Investment in common shares of Parent Company	(P 853)	P 1,863	(P 853)	P 1,863
Investment in corporate debt securities	(5)	50	-	49
Deposits with the Parent Company	19	126	-	-
Fair value losses	(849)	-	(849)	-
Interest income	5	-	3	-

The carrying amount and the composition of the plan assets as of December 31, 2017 and 2016 are disclosed in Note 24.2. Investment in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.7(b)]. Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2020 after it was renewed in 2015 for another five years. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities account in the 2017 and 2016 statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2). The outstanding receivable on the lease contracts is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 and renewable as may be agreed by the parties. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2017	2016	2015
Short-term employee benefits	**P 442**	P 361	P 338
Post-employment defined benefits	**16**	15	18
	P 458	P 376	P 356

	Parent Company		
	2017	2016	2015
Short-term employee benefits	**P 328**	P 271	P 221
Post-employment defined benefits	**-**	-	-
	P 328	P 271	P 221

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, claims from customers and third parties, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2017 and 2016:

	Group		Parent Company	
	2017	2016	**2017**	2016
Trust department accounts	**P 91,585**	P 84,804	**P 64,395**	P 61,260
Derivative assets	**46,230**	32,172	**46,230**	32,172
Outstanding guarantees issued	**41,858**	31,828	**41,858**	31,828
Derivative liabilities	**41,822**	27,256	**41,822**	27,256
Unused commercial letters of credit	**17,055**	10,783	**17,055**	10,724
Spot exchange sold	**6,307**	5,455	**6,198**	5,452
Spot exchange bought	**6,204**	5,452	**6,204**	5,455
Inward bills for collection	**1,407**	540	**1,407**	2,048
Late deposits/payments received	**566**	2,169	**434**	540
Outward bills for collection	**133**	84	**133**	84
Others	**17**	17	**17**	17

29.2 Poverty Eradication and Alleviation Certificates Bonds

In October 2011, the Bank filed a case before the Court of Tax Appeals questioning the 20% final withholding tax on PEACe Bonds by the BIR. The Bank subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury withheld P199 in October 2011 from the Bank on the interest on its PEACe bonds holdings. The amount was originally recognized as part of Accounts receivables under Loans and Receivables account in the statements of financial position until it was settled in 2017.

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20% final withholding tax it withheld on the PEACe Bonds on October 18, 2011. On March 16, 2015, the Bank and RCAP filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification to exclude from the definition “deposit substitutes” the PEACe Bonds since there was only one lender at the primary market, and subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax. The Parent Company and RCAP also sought partial reconsideration to the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCAP/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed. The Bank and RCAP also reiterated its arguments that the tax constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the obligations by the Bureau of Treasury when it issued the PEACe Bonds. The Office of the Solicitor General (“OSG”), as counsel for the Republic and other public respondents, also filed a Motion for Reconsideration and Clarification, reiterating the BIR’s right to withhold 20% as Final Withholding Tax and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Bank and RCAP’s Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as “deposit substitutes”, the phrase “at any one time” in relation to “20 or more lenders” should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCAP which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. On the other hand, the Supreme Court denied the Motion for Reconsideration and Clarification filed by the OSG. The Supreme Court likewise held that due to the continued refusal of the Bureau of Treasury to release the amount of P4,966, which it withheld upon maturity of the PEACe Bonds, in violation of the order issued by the Supreme Court, the Bureau of Treasury is liable to pay legal interest of six percent (6%) per annum on the aforesaid amount of P4,966, counted from October 19, 2011 until fully paid.

On April 11, 2017, the Parent Company received a copy of the Entry of Judgment stating, among others, that the Decision dated January 13, 2015 and the Resolution dated August 16, 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company became final and executory on October 20, 2016. The Bureau of Treasury has so far settled P197 of the Parent Company’s claim. The balance of P2 is currently the subject of discussion between the Parent Company, the PDIC and the Bureau of Treasury. The PDIC is evaluating, among others, the deed of assignment executed in favor of the Parent Company by a rural bank, which has since then been placed under liquidation, of its PEACe bonds holdings in partial settlement of its past loan obligation.

29.3 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI) (collectively, "Global Steel"), which purchased the Iligan Plant assets of the NSC ("NSC Plant Assets") from the Liquidator in 2004, initiated arbitration proceedings with the Singapore International Arbitration Centre ("SIAC") seeking damages on account of the failure of the Liquidator and the Secured Creditors, including the Bank and RCBC Capital Corporation ("RCAP"), to deliver the NSC Plant Assets free and clear from liens and encumbrance; purportedly depriving them of the opportunity to use the said assets to secure additional loans to fund the operations of the Plant and upgrade the same. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award in favor of Global Steel in the total amount of (a) US$80, as and by way of lost opportunity to make profits and (b) P1,403, representing the value of the undelivered Billet Shop Land measuring 3.4071 hectares (the "Lost Land Claim").

On appeal, and on July 31, 2014, the Singapore High Court set aside the Partial Award, and subsequently granted the Secured Creditors' application for the lifting of the injunctions issued in 2008 and directed the release of Global Steel's installment payment to the Secured Creditors. Accordingly, the Bank and RCAP received their respective share in the funds previously held in escrow. Moreover, the Secured Creditors may now compel Global Steel to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon Global Steel's failure to do so.

On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court insofar as it set aside (a) the monetary award of US$80 and P1,403 representing lost opportunity to make profit and the value of the Lost Land Claim in favor of Global Steel, respectively, and (b) the deferment of Global Steel's obligation to pay the purchase price of the NSC Plant Assets. The Singapore Court of Appeals ruled that (a) aside from the lack of jurisdiction to rule on the issue of lost opportunity to make profit and absence of evidentiary support for the award, and (b) the premature ruling on the issue of the Lost Land Claim, the dispute relating to Global Steel's payment obligation is an obligation under the OMNA, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Bank, RCAP and the other Secured Creditors to defer holding Global Steel in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

On November 27, 2015, the Singapore Court of Appeals further held that the issue of Global Steel's lost opportunity to make profit cannot be remanded to the Arbitral Tribunal, or to a new Arbitral Tribunal for that matter, to be litigated anew after the setting aside of the Partial Award. The doctrines of res judicata and abuse of process also operated to preclude the reopening of this issue. However, the Singapore Court of Appeals held that the Lost Land Claim may be the subject of a fresh arbitration proceedings before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the Secured Creditors.

The Parent Company's estimated exposure is approximately P209 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of P486, taking into consideration the P49 installment payment it had received from the funds previously in escrow. The Parent Company has recognized full impairment loss on the receivable since then, with the gross amount of receivable classified as UDSCL under Loans and Receivable account. The Parent Company's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the NSC assets sold to Global Steel, covering the period 1999 to October 14, 2004, are deemed paid, following the denial with finality of the City of Iligan's Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on March 16, 2016, in the case initiated solely by the NSC Liquidator.

In defiance, however, of the aforesaid final and executory ruling, the City of Iligan (a) issued a Notice of Delinquency against NSC, seeking to collect the tax arrears covering the period 1999 to 2016, (b) levied the NSC properties, and (c) set the same for public auction on October 19, 2016, which proceeded even as the local government unit (LGU) received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57, directing it to (a) comply with the valid and binding Tax Amnesty Agreement dated October 13. 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion praying that (a) the City of Iligan, the Sangguniang Panlunsod and City Treasurer be directed to show cause why they should not be held in contempt, and, (b) the Auction Sale of the NSC properties held on October 19, 2016 be nullified.

In an Order dated April 4, 2017, the Makati Trial Court (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the NSC until the Decision dated October 7, 2011, which held that the NSC pre-closing taxes have been paid, is fully executed and NSC's remaining tax liabilities are correctly computed. The Makati Trial Court likewise (a) directed the Iligan City Treasurer to show cause why she should not be held in contempt of court for holding the auction sale of the NSC Plant Assets without clearing NSC of the pre-closing taxes, and (b) directed the Iligan City Treasurer, among others, to inform the Makati Trial Court of the names of the responsible persons who ordered, aided and abetted her assailed conduct. The LGU and the Iligan City Treasurer, among others, moved the reconsideration of the April 4, 2017 Order.

29.4 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. (VMS), a Netherlands corporation, and Verotel International Industries, Inc. ("VII"), a Philippine corporation, civilly sued the Parent Company, Bankard, Inc. (Bankard), Grupo Mercarse Corp., CNP Worldwide, Inc. ("CNP") and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5 million, which the defendants allegedly misappropriated. VMS is an Internet merchant providing on-line adult entertainment and on-line gambling, in addition to the sale of pharmaceuticals over the Internet.

After nearly five years, and after being transferred to a fourth judge, the case went to trial from January 13, 2016 to January 26, 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for Judge Michael J. Raphael's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. On March 10, 2016, the Parent Company/Bankard informed Judge Raphael that they will, instead, be filing a motion for judgment notwithstanding verdict (JNOV) and motion for new trial. On April 11, 2016, the Parent Company /Bankard timely filed their motions for JNOV and new trial, and on April 27, 2016, the Parent Company /Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, Judge Raphael heard, and partially granted, the Parent Company/Bankard's Motion for JNOV by deleting the US$7.5 million punitive damages awarded to VMS in the absence of proof that (a) a corporate officer of the Parent Company/Bankard knew of, authorized, or ratified fraudulent acts, and (b) Janet Conway was a managing agent of the Parent Company/Bankard within the meaning of the California Civil Code Section 3294(b). However, Judge Raphael ruled that Conway was an agent of the Parent Company/Bankard for some purposes, and sustained the award of US$1.5 million. Judge Raphael likewise denied the Parent Company/Bankard's Motion for New Trial, and likewise partially granted, plaintiffs' motion for interest and awarded VMS prejudgment interest in the amount of US$0.5 million.

On July 11, 2016, the Parent Company/Bankard timely filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals, and received a copy of the Notice of Appeal solely filed by VMS on July 8, 2016. On July 21, 2016, the Parent Company/Bankard timely posted the amount of US$3.1 million, as and by way of security to stay the enforcement of the Amended Judgment rendered by Judge Rafael.

On September 8, 2016, VMS filed its unsealed Certificate of Interested Persons, after the California Court of Appeals sustained the Parent Company/Bankard's position that the identities subject of the disclosure was, in fact, a central issue in this case and the appeal, as it relates to whether VMS has standing in this case and is entitled to any damages. In an Order dated, and filed, on November 16, 2016, the California Court of Appeals adopted the briefing sequence proposed by the Parent Company/Bankard, thus, allowing the full ventilation of the case on appeal. In a notice dated January 25, 2017, the California Court of Appeals informed the parties of the filing of the reporter's transcripts.

Subsequently, on March 7, 2017, Judge Raphael granted VMS's motion for cost of proof sanction and directed the Parent Company/Bankard to pay VMS the additional amount of US$0.08 million to cover the cost of (a) the services of expert witnesses and (b) their presentation during the trial, given his ruling that the Parent Company/Bankard unjustifiably denied VMS's request for admission that they failed to comply with MasterCard and VISA association rules. The Parent Company/Bankard timely filed their Notice of Appeal on the aforementioned Order of Judge Raphael but no longer posted any additional filing fees, following VMS's agreement not seek to enforce of the said award during the pendency of the appeal.

The Parent Company/Bankard filed their Revised Opening Brief on their Appeal with the California Court of Appeals on October 2, 2017, raising the following arguments: (a) there is no substantial evidence to establish that the Parent Company/Bankard caused VMS' loss, which arose as a result of the processing of VMS' transactions under and using the merchant ID of another merchant, in a side deal without Bankard's knowledge and consent; (b) there is, therefore, no contract/no processing relationship between VMS and Bankard; (c) there is no substantial evidence to establish that the Parent Company/Bankard caused VMS' loss under agency law, given that (i) Conway could not be Bankard's agent as a matter of law, because she was defrauding Bankard, (ii) plaintiffs did not establish that Conway was an agent of Bankard, (iii) plaintiff did not establish that Conway was a purported agent of Bankard, and, (iv) plaintiffs did not establish that Conway's wrongful conduct was within the scope of her agency; and. (d) the Trial Court abused its discretion in awarding cost of proof sanctions. The Parent Company/Bankard is awaiting the filing of VMS' Reply Brief.

29.5 Applicability of RR 4-2011

On March 15, 2011, the BIR issued RR 4-2011, which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU.

On April 6, 2015, the Parent Company and other member-banks of the Bankers Association of the Philippines ("BAP") (the "Petitioners"), filed the above-captioned case with Application for TRO and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein the Petitioners assailed the validity of RR 4-2011 on the ground, among others, that (a) RR 4-2011 violates the Petitioners' substantive due process rights; (b) it is not only illegal but also unfair; (c) it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation; (e) it was promulgated without prior consultation, thus, violating the procedural due process rights of the petitioners; and (f) it violated the equal protection clause guaranteed in the Constitution for requiring Banks and other financial institutions to adopt a method of allocation when other institutions and taxpayers were not being required to do so by the Department of Finance ("DOF") and BIR.

On April 8, 2015, the RTC-Makati issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, RTC-Makati issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Parent Company and other BAP member banks, including the issuance of Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the RTC-Makati issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Parent Company and other BAP member banks are concerned. The Pre-trial Conference of the case began on August 2, 2016 and continued to August 3, 2017. During the August 3, 2017 hearing, in lieu of trial for the resolution of the case, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017. As of October 5, 2017, the parties to the case have submitted their respective Memorandum

29.6 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board of the BSP approved the imposition of supervisory action on the Parent Company to pay the amount of P1.0 billion in relation to the completed special examination. The Parent Company has fully recognized in the 2016 statement of profit or loss the P1.0 billion supervisory action as part of Miscellaneous Expenses under Other Operating Expenses account (see Note 25.2), and has fully paid the same. The Parent Company does not expect this imposition of supervisory action to affect its ability to perform its existing obligations or unduly hamper its operations.

The AMLC has filed a criminal complaint against former and current officers and employees of the Parent Company for alleged violation of Section 4(f) of RA No. 9160, as amended, otherwise known as the "Anti-Money Laundering Law", in connection with the alleged unauthorized transfer of funds taken from the account of the Bank of Bangladesh with the New York Federal Reserve Bank. The AMLC alleged that each of the respondents supposedly performed or failed to perform an act, which facilitated the crime of money laundering, particularly the remittance and eventual withdrawal of the aforementioned amount from the US Dollar accounts of Enrico T. Vasquez, Michael F. Cruz, Alfred Vergara and Jessie Christopher M. Lagrosas (the "Beneficiary Accounts"), which were then being maintained at the Parent Company's Jupiter Business Center. In particular, the AMLC alleged that each of the respondents failed to effect a hold out on the Beneficiary Accounts despite the supposed "red flags" in the SWIFT payment orders and their supposed receipt on February 9, 2016 of the SWIFT MT999 and MT199 messages of the Bank of Bangladesh requesting for the stop payment of the remittances in issue, resulting in the withdrawals from the said accounts. The AMLC also charged the respondents for their alleged failure to perform Enhanced Due Diligence (EDD), despite the aforementioned "red flags" or alleged irregularities in the remittances.

On March 27, 2017, the former and current officers of the Parent Company filed their Joint Counter-Affidavit, pointing out that: (a) the AMLC failed to establish that they had actual knowledge, as required by the AMLA, as amended, that the US$81 million inward remittance proceeded from an unlawful activity or that the willful blindness doctrine under US jurisprudence is applicable; (b) no predicate crime was established, in the absence of evidence showing the occurrence of the supposed "hacking incident"; and (c) their supposed failure to conduct EDD and the lifting of the hold out on the Beneficiary Accounts cannot amount to facilitation of money-laundering, considering that none of the scenarios required prior to conducting EDD is present, and banks are not legally allowed to effect any unilateral freezing of a depositor's account under the AMLA, as amended, and relevant jurisprudence.

On May 18, 2017, the AMLC filed its Consolidated and Joint Reply Affidavit. On July 10, 2017, the former and current officers of the Parent Company filed their respective Individual Rejoinder Affidavits.

There are no known claims, demands, and commitments, events, or uncertainties that will have a material impact on the Bank's operational performance and ability to service obligations.

Except for the above-mentioned proceedings, the Parent Company is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

29.7 Lease Commitments

(a) Parent Company as a Lessor

The Parent Company has entered into various lease contracts related to RSB Corporate Center, an investment property held for rental, with lease terms ranging from one to five years and with monthly rent depending on market price with 5% escalation rate every year. Total rent income earned from these leases amounted to P297, P280, and P218 in 2017, 2016 and 2015, respectively, which are presented as part of Rental under the Miscellaneous Income account in the statements of profit or loss (see Note 25.1). A certain office and parking spaces in RSB Corporate Center are being lease-out to RSB [see Note 28.5 (a)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	2017	2016
Within one year	**P 375**	P 410
After one year but not more than five years	**486**	861
	P 861	P 1,271

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers for lease periods from one to 25 years. The Group's rental expense related to these leases (included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss) amounted to P977, P742 and P754 in 2017, 2016 and 2015, respectively. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

The future minimum rental payables under these non-cancellable operating leases are as follow:

	Group	**Parent Company**
2017:		
Within one year	P 811	P 673
After one year but not more than five years	2,640	2,375
More than five years	335	291
	P 3,786	**P 3,339**

	Group		Parent Company	
2016:				
Within one year	P	853	P	605
After one year but not more than five years		2,600		2,246
More than five years		228		193
	P	3,681	P	3,044

30. EARNINGS PER SHARE

The following shows the profit and per share data used in the basic and diluted EPS computations for the three years presented:

	Group					
	2017		2016		2015	
Basic and Diluted EPS						
a. Net profit attributable to Parent Company's shareholders	**P**	**4,308**	P	3,868	P	5,129
Allocated for preferred and Hybrid Tier 1 (HT 1) dividends		**-**		-		(219)
b. Adjusted net profit before capital redemption		**4,308**		3,868		4,910
Redemption premium on HT1		**-**		-		(723)
c. Adjusted net profit	**P**	**4,308**	P	3,868	P	4,187
d. Weighted average number of outstanding common stocks		**1,400**		1,400		1,362
EPS before capital redemption (b/d)	**P**	**3.08**	P	2.76	P	3.60
Basic and diluted EPS (c/d)	**P**	**3.08**	P	2.76	P	3.07

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group		
	2017	2016	2015
Return on average equity			
Net profit / Average total equity	**6.72%**	6.42%	9.23%
Return on average resources			
Net profit / Average total resources	**0.82%**	0.77%	1.09%
Net interest margin			
Net interest income / Average interest earning resources	**4.25%**	4.06%	4.15%
Profit margin			
Net profit / Revenues	**17.15%**	16.95%	23.07%
Debt-to-equity ratio			
Total liabilities / Total equity	**7.27**	7.39	7.88
Resources-to-equity ratio			
Total resources / Total equity	**8.27**	8.39	8.88
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.73**	1.50	1.81

	Parent Company		
	2017	2016	2015
Return on average equity			
Net profit / Average total equity	**6.74%**	6.43%	9.34%
Return on average resources			
Net profit / Average total resources	**1.02%**	0.93%	1.30%
Net interest margin			
Net interest income / Average interest earning resources	**3.85%**	3.47%	3.62%
Profit margin			
Net profit / Revenues	**22.34%**	22.67%	32.32%

	Parent Company		
	2017	2016	2015
Debt-to-equity ratio			
Total liabilities / Total equity	**5.60**	5.73	6.40
Resources-to-equity ratio			
Total resources / Total equity	**6.60**	6.73	7.40
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.95**	1.60	2.06

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's and Parent Company's 2017 liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (see Note 18)		**Bonds Payable (see Note 19)**		**Total Financing Activities**	
	Group	**Parent**	**Group**	**Parent**	**Group**	**Parent**
Balance as of January 1, 2017	P 37,643	P 31,712	P 41,595	P 41,595	P 79,238	P 73,307
Cash flow from financing activities:						
Availments	20,561	15,477	-	-	20,561	15,477
Payments/redemption	(14,472)	(10,788)	(13,687)	(13,687)	(28,159)	(24,475)
Non-cash financing activities:						
Foreign exchange losses	235	199	118	118	353	317
Amortization of premium	-	-	34	34	34	34
	P 43,967	P 36,600	P 28,060	P 28,060	P 72,027	P 64,660

ANNEX D

Original Offering Circular dated 5 February 2018

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OFFERING CIRCULAR

RIZAL COMMERCIAL BANKING CORPORATION

(A banking corporation organised and existing under Philippine laws)

US$2,000,000,000

Medium Term Note Programme

Under this US$2,000,000,000 Medium Term Note Programme (the **Programme**), Rizal Commercial Banking Corporation (the **Issuer** or the **Bank**), may from time to time issue notes (the **Notes**) denominated in any currency agreed between it and the relevant Dealer (as defined below).

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed US$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed by the Bank under the Programme from time to time (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an on-going basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Investment Considerations*".

Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for permission to deal in and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval-in-principle from, and the admission of any Notes to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms (as defined below) in respect of any Series (as defined in "*Terms and Conditions of the Notes*") will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which, with respect to Notes to be listed on the SGX-ST will be delivered to the SGX-ST before the listing of Notes of such Tranche.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Programme has been rated. Notes issued under the Programme may be rated or unrated. Where a Series (as defined below) of Notes is rated, the relevant rating for such Notes shall be specified in the applicable Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale*".

The Bank may agree with any Dealer and the Trustee (as defined herein) that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Sole Arranger
Standard Chartered Bank

Dealers

Citi **Standard Chartered Bank** **UBS**

The date of this Offering Circular is 5 February 2018.

The Bank accepts responsibility for the information contained in this Offering Circular. To the best of its knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular has been prepared by the Bank for use in connection with the offer and sale of the Notes outside the United States. The Bank and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Bank of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Offering Circular in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

Copies of Final Terms will be available from the Bank's registered office and the specified office set out below of each of the Paying Agents (as defined in the Conditions).

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see "*Documents Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that those documents are incorporated and form part of this Offering Circular.

Standard Chartered Bank (the **Arranger**) and together with Citigroup Global Markets Limited and UBS AG Hong Kong Branch (the **Dealers**), the Trustee and the Agents have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. Accordingly no representation or warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted by the Arranger, the Dealers, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer or the Guarantor in connection with the Programme, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arranger, the Dealers, the Trustee or the Agents. Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Issuer, the Guarantor, the Arranger, any of the Dealers, the Trustee or any of the Agents that any recipient of this Offering Circular should purchase any Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors accepts any responsibility for the contents of this Offering Circular or any statement made or purported to be made by the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors or any of their behalf in connection with the Issuer, the Guarantor, the Group or the issue and offering of the Notes. Each of the Arranger, the Dealers, the Trustee, the Agents and their respective affiliates and advisors accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement. None of the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates or advisors undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or their respective affiliates or advisors.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Offering Circular in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Arranger, the Trustee, any Agent or any of the Dealers. Neither the delivery of this Offering Circular nor any sale made in connection herewith, under any circumstances, creates any implication.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation by the Bank, the Arranger, the Trustee, any Agent or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should determine for itself the relevance of the information contained in this Offering Circular and should make its own independent investigation of the Bank's financial condition and affairs, and its own appraisal of its creditworthiness. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank, the Arranger, the Trustee, any Agent or any of the Dealers to any person to subscribe for or to purchase any Notes. None of the Dealers, the Arranger, the Trustee or the Agents undertake to review the financial condition or affairs of the Bank during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger, the Trustee or any Agent.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply: that there has been no change in the affairs of the Bank, its subsidiaries and/or associated companies since its date (or the date on which this Offering Circular has been most recently amended or supplemented); that there has been no adverse change in the financial position of the Bank since the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information contained herein concerning the Bank is correct at any time subsequent to the date hereof (or the date on which this Offering Circular has been most recently amended or supplemented); that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Trustee, the Agents and the Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes issued under the Programme of any information coming to their attention.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions from the Securities Act and applicable securities laws, Notes may not be offered, sold or (in the case of the Notes in bearer form) delivered within the United States or to U.S. persons (as defined in Regulation S). For a description of certain restrictions on offers and sales of Notes and on distribution of this Offering Circular, see "*Subscription and Sale*".

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area (**EEA**) or offered to the public in a Member State of the EEA in circumstances which would have required the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as of the date of issue of the Notes).

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Bank, the Arranger, the Trustee, the Agents or the Dealers represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Arranger, the Trustee, the Agents or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the EEA (including the United Kingdom), Japan, Hong Kong, Philippines, Thailand, Singapore and the People's Republic of China (the **PRC**), for further information see "*Subscription and Sale*".

In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

None of the Bank, the Arranger, the Trustee, the Agents or the Dealers makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

MIFID II product governance / target market – The Final Terms in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PRIIPs / **IMPORTANT – EEA RETAIL INVESTORS** – If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Bank is organised under the laws of the Republic of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the Bank outside of the Philippines in any actions pertaining to the Notes. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The enforceability of foreign judgments in the Philippines is specifically provided for in the 1997 Rules of Civil Procedure. Section 48 of Rule 39 of the Rules of Civil Procedure provides that a judgment or final order of a tribunal of a foreign country having jurisdiction to give the judgment or final order: (a) in case of a judgment or final order upon property, is final upon the title to that property; and (b) in case of a judgment or final order against a person, is presumptive evidence of a right between the parties and their successors in interest by a subsequent title. In either case, the judgment or final order may be rejected if there is a defect relating to jurisdiction or notice to the other party, collusion, fraud or clear mistake of law or fact. In addition, Article 17 of the Civil Code of the Philippines provides that the judgment must not be contrary to laws that have for their object public order, public policy and good customs in the Philippines. Furthermore, Philippine courts have held that a foreign judgment is presumed to be valid and binding in the country from which it issues, until the contrary is shown, and the party contesting the foreign judgment has the burden of overcoming the presumption of its validity.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, the financial information included in this Offering Circular is presented on a consolidated basis and has been derived from the consolidated financial statements of the Bank. The Bank's audited consolidated financial statements for the financial years ended 31 December 2014, 2015 and 2016 and unaudited consolidated financial statements for the nine months ended 30 September 2017 have been prepared in accordance with Financial Reporting Standards in the Philippines (**PFRS**) for Banks.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

Unless otherwise indicated, all references to the "Bank", the "Issuer" or "RCBC", refer to Rizal Commercial Banking Corporation. In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "BSP" are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to the "Government" herein are references to the Government of the Philippines. All references to "United States", "US" or "U.S." herein are to the United States of America. All references to "United Kingdom" herein are to the United Kingdom of Great Britain and Northern Ireland. All references to "Pesos" and "₱" herein are to the lawful currency of the Philippines, all references to "U.S. dollar", "U.S. Dollar", "U.S. dollars", "U.S. Dollars", "U.S.$" and "US$" are to the lawful currency of the United States herein, all references to "HK$" herein are to the lawful currency of the Hong Kong Special Administrative Region, all references to "S$" herein are to the lawful currency of Singapore, all references to "euro" and "€" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended and all references to "£" refer to pounds sterling. Unless otherwise specified or the context otherwise requires, all references to "loans" herein are to loans and discounts, bills purchases, receivables from cardholders and customers' liabilities under acceptances and trust receipts and excludes interbank loans.

For convenience, certain U.S. dollar amounts have been translated into Peso amounts and certain Peso amounts have been translated into U.S. dollar amounts, based on the prevailing exchange rate of ₱50.815 = US$1.00 as of 30 September 2017, being the closing exchange rate for Pesos against U.S. dollars dealt on that date on the Philippine Dealing System (**PDS**) and published in the major Philippine financial press on that date. Such translations should not be construed as representations that the Peso or U.S. dollar amounts referred to could have been, or could be, converted into Pesos or U.S. dollars, as the case may be, at that or any other rate or at all.

References in this document to the “Group” shall mean the Bank and its consolidated subsidiaries.

Rounding adjustments have been made in calculating some of the financial information included in this Offering Circular. As a result, numerical figures shown as totals in some tables may not be exact arithmetic aggregations of the figures that precede them.

Unless otherwise indicated, the description of the Bank’s business activities in this Offering Circular is presented on a consolidated basis.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Bank has included statements in this Offering Circular which contain words or phrases such as **will, would, aim, aimed, is likely, are likely, believe, expect, expected to, will continue, anticipated, estimate, estimating, intend, plan, seeking to, future, objective, should, can, could, may**, and similar expressions or variations of such expressions, that are "forward-looking statements". However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the expected financial position, business strategy, plans and prospects of the Bank (including the financial forecasts, profit projections, statements as to the expansion plans of the Bank, expected growth in the Bank and other related matters), if any, are forward-looking statements and accordingly, are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Bank to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors are discussed in greater detail under the section "*Investment Considerations – Risks Relating To This Offering Circular – Risks relating to forward-looking statements*".

Given the risks and uncertainties that may cause the actual future results, performance or achievements of the Bank to be materially different from the results, performance or achievements expected, expressed or implied by the forward-looking statements in this Offering Circular, undue reliance must not be placed on such forward-looking statements. None of the Bank, the Arranger, the Trustee or any of the Dealers or the Agents represents or warrants that the actual future results, performance or achievements of the Bank will be as discussed in those statements.

Further, the Bank disclaims any responsibility, and undertakes no obligation, to update or revise any forward-looking statement contained herein to reflect any changes in the expectations with respect thereto after the date of this Offering Circular or to reflect any changes in events, conditions or circumstances on which such statements are based.

SUPPLEMENTARY OFFERING CIRCULAR

The Bank has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant change to the Bank, to the extent such change has not been disclosed by way of an announcement on the website of the SGX-ST, affecting any matter contained in this Offering Circular, the inclusion of which would reasonably be required by investors and their professional advisers and would reasonably be expected by them to be found in this Offering Circular, for the purpose of making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank and the rights attaching to the Notes, the Bank shall prepare an amendment or supplement to this Offering Circular or publish a replacement Offering Circular for use in connection with any subsequent offering of the Notes and shall supply to each Dealer, the Trustee and each Agent such number of copies of such supplement hereto as such Dealer, the Trustee and the Agents may reasonably request.

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IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE APPLICABLE FINAL TERMS MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or issued from time to time after the date hereof shall be incorporated in, and form part of, this Offering Circular:

(a) the most recently published audited consolidated and non-consolidated annual financial statements and, if published later, the most recently published consolidated interim financial statements (if any) of the Bank, in each case together with any audit or review reports prepared in connection therewith (where relevant); and

(b) all supplements (other than the Final Terms) or amendments to this Offering Circular circulated by the Bank from time to time,

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any published unaudited interim financial statements of the Bank which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited by the auditors of the Bank. Accordingly, there can be no assurance that, had an audit been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance upon them (see "*Investment Considerations – V. Risks Relating To This Offering Circular – Risks relating to unaudited, reviewed interim financial statements deemed incorporated by reference*").

The Bank will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Bank at its registered office set out at the end of this Offering Circular.

The Bank will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event a new Offering Circular or a supplement to the Offering Circular, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this overview.

Issuer:	Rizal Commercial Banking Corporation.
Investment Considerations:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Investment Considerations*". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Investment Considerations – Risks relating to the Notes*" and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
Description:	Medium Term Note Programme.
Arranger:	Standard Chartered Bank.
Dealers:	Citigroup Global Markets Limited, Standard Chartered Bank, UBS AG Hong Kong Branch and any other Dealers appointed in accordance with the Programme Agreement (as defined in "*Subscription and Sale*"). The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Circular to **Dealers** are to all persons appointed as a dealer in respect of one or more Tranches or the whole Programme (in each case, whose appointment has not been terminated).
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular. *Notes having a maturity of less than one year* Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom,

	constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale and Transfer and Selling Restrictions*".
Principal Paying Agent:	The Bank of New York Mellon, London branch.
Registrar:.....................................	The Bank of New York Mellon SA/NV, Luxembourg Branch (previously The Bank of New York Mellon (Luxembourg) S.A.)
Transfer Agent:	The Bank of New York Mellon, London branch.
Trustee:	The Bank of New York Mellon, London branch.
Programme Size:	Up to US$2,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each a **Series**) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of the Series. Each Series may be issued in tranches (each a **Tranche**) on the same or different issue date. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Final Terms.
Currencies:...................................	Notes may be denominated in, subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:.....................................	The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency (as set out in the applicable Final Terms).
Issue Price:	Notes will be issued on a fully-paid basis and at an issue price which may be at par or at a discount to, or premium over, par. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.

Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa.*
Clearing Systems:	Clearstream, Luxembourg and Euroclear and, in relation to any Tranche of Notes, such other clearing system as may be agreed between the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the relevant Paying Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc. (**ISDA**), and as amended and updated as of the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate set out in the applicable Final Terms; or (c) on such other basis as may be agreed between the Issuer and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.
Other provisions in relation to Floating Rate Notes:	Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the Issuer and the relevant Dealer may agree.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation reasons; or (iii) following an Event of Default (as defined in Condition 11.1), or that the Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Final Terms. The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms. Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions – Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would have required the publication of a prospectus under the Prospectus Directive (as defined below) will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:......................................	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 9 unless required by law. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:.........................	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 11.
Status of the Notes:.....................	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and will rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding, as set out in Condition 3.
Rating:..	The Programme has been rated. Notes issued under the Programme may be rated or unrated. Where a Series (as defined below) of Notes is rated, the relevant rating for such Notes shall be specified in the applicable Final Terms. Such rating will not necessarily be the same as the rating(s) assigned to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.
Listing and Admission to Trading:	Approval-in-principle has been received from the SGX-ST for permission to deal in and quotation of any Notes that may be issued pursuant to the Programme and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval-in- principle from, and the admission of any Notes to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in other currencies). Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any

	market may also be issued.
	The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law.
Selling Restrictions:......................	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), Japan, Hong Kong, Singapore and the PRC and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

Bearer Notes

Each Tranche of Bearer Notes will be in bearer form and will initially be issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Final Terms, a permanent global note (a **Permanent Bearer Global Note** and, together with a Temporary Bearer Global Note, each a **Bearer Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**).

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for: (i) interests in a Permanent Bearer Global Note of the same Series; or (ii) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that: (i) an Event of Default (as defined in Condition 11) has occurred and is continuing; (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes), receipts and interest coupons relating to such Notes where TEFRA D is specified in the applicable Final Terms:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Notes, receipts or interest coupons or talons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for the Common Depositary of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes. None of the Issuer, the Trustee, the Principal Paying Agent. any other Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing; (ii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available; or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the

Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than ten days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and International Securities Identification Number (**ISIN**) which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event, a supplement to this Offering Circular or a new Offering Circular will be made available which will describe the effect of the agreement reached in relation to such Notes.

APPLICABLE FINAL TERMS

[MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** − The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID I); (ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[*Date*]

RIZAL COMMERCIAL BANKING CORPORATION

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the US$2,000,000,000
Medium Term Note Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [*date*] [and the supplemental Offering Circular dated [*date*]] (together, the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular.

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date:*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [*date*] [and the supplement dated [*date*]] (together, the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Offering Circular, save in respect of the Conditions which are extracted from the Offering Circular dated [*date*] and are attached hereto.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.*]

[*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination [must/may need to] be £100,000 or its equivalent in any other currency.*]

[*In the case of any Notes which are to be offered to the public in a Member State of the European Economic Area in circumstances which would have required the publication of a prospectus under the Prospectus Directive (2003/71/EC), the minimum specified denomination will be €100,000 (or its equivalent in any other currency as of the date of Issue of the Notes) and the provisions regarding denomination below should be read accordingly.*]

1.	(a)	Issuer:	Rizal Commercial Banking Corporation
	(a)	Branch:	[ ] *[if applicable]*
2.	(a)	Series Number:	[ ]
	(a)	Tranche Number:	[ ]
	(b)	Date on which the Notes will be consolidated and form a single Series:	The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph [ ] below, which is expected to occur on or about [*date*]][Not Applicable
3.	Specified Currency or Currencies:		[ ]
4.	Aggregate Nominal Amount:		
	(a)	Series:	[ ]
	(b)	Tranche:	[ ]
5.	(a)	Issue Price:	[ ] per cent, of the Aggregate Nominal Amount [plus accrued interest from *[insert date] (if applicable)*]
	(a)	Private banking rebate:	[Applicable/Not Applicable]
6.	Net Proceeds:		[ ] *(include for listed issues if required by the stock exchange on which the Notes are listed.)*
7.	(a)	Specified Denominations:	[ ] *(N.B. Notes must have a minimum denomination of €100,000 (or equivalent))* *(Note: where Bearer multiple denominations above €100,000 or equivalent are being used the following sample wording should be followed:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and*

			including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000].")
	(a)	Calculation Amount (in relation to calculation of interest in global form see Conditions):	[ ] *(If only one Specified Denomination, insert the Specified Denomination.* *If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
8.	(a)	Issue Date:	[ ]
	(a)	Interest Commencement Date:	[*specify*/Issue Date/Not Applicable] (*N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.*)
9.	Maturity Date:		[*Specify date or for Floating Rate Notes –* Interest Payment Date falling in or nearest to [*specify month and year*]]
10.	Interest Basis:		[ ] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/− [ ] per cent. Floating Rate] [Zero Coupon] [*specify other*] (further particulars specified below)
11.	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*]
12.	Change of Interest Basis or Redemption/Payment Basis:		[Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis][Not Applicable]
13.	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]
14.	(a)	Status of the Notes:	Senior
	(a)	Date Board approval for issuance of Notes obtained:	[ ] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular Tranche of Notes).*
	(b)	Date regulatory approval/consent for issuance of Notes obtained:	[ ]/[None required]

15.	Listing:		[[ ] (*specify*)/None]
16.	Additional Tax considerations:		[*specify*/None]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate(s) of Interest:	[ ] per cent. per annum payable in arrear on each Interest Payment Date
	(b)	Interest Payment Date(s):	[ ] in each year [up to and including the Maturity Date](*Amend appropriately in the case of irregular coupons*)
	(c)	Fixed Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[ ] per Calculation Amount
	(d)	Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions):	[[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
	(e)	Day Count Fraction:	[30/360] [Actual/Actual (ICMA)]
	(f)	Determination Date(s):	[ ] in each year] [Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon*)
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	([None/*Give details*]
18.	Floating Rate Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Specified Period(s)/Specified Interest Payment Dates:	[ ][, subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to any adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ [Not Applicable]]

(c)	Additional Business Centre(s):	[ ]
(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Agent):	[ ]
(f)	Screen Rate Determination:	
	• Reference Rate:	[ ] month [LIBOR/EURIBOR/specify *other Reference Rate*] (*Either LIBOR, EURIBOR or other, although additional information is required if other, including fallback provisions in the Agency Agreement.*)]
	• Interest Determination Date(s):	[ ] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	• Relevant Screen Page:	[ ] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(g)	ISDA Determination:	
	• Floating Rate Option:	[ ]
	• Designated Maturity:	[ ]
	• Reset Date:	[ ] (*In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period*)
(h)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(i)	Margin(s):	[+/−] [ ] per cent. per annum
(j)	Minimum Rate of Interest:	[ ] per cent. per annum

	(k)	Maximum Rate of Interest:	[ ] per cent. per annum
	(l)	Day Count Fraction:	[[Actual/Actual (ISDA)][Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360][360/360][Bond Basis] [30E/360][Eurobond basis] 30E/360 (ISDA)]
	(m)	[Ratings Step-up/Step-down:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(n)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
19.	Zero Coupon Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Accrual Yield:	[ ] per cent. per annum
	(b)	Reference Price:	[ ]
	(c)	Any other formula/basis of determining amount payable:	[ ]
	(d)	Day Count Fraction in relation to Early Redemption Amounts:	[30/360] [Actual/360] [Actual/365]
20.	Index Linked Interest Note:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Calculation Agent:	[*give name*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Agent):	[ ]
	(d)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]

	(e)	Specified Period(s)/Specified Interest Payment Dates:	[ ]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[ ]
	(h)	Minimum Rate of Interest:	[ ] per cent. per annum
	(i)	Maximum Rate of Interest:	[ ] per cent. per annum
	(j)	Day Count Fraction:	[ ]
21.	Dual Currency Interest Note Provisions:		[Applicable/Not Applicable] (*if not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
	(b)	Party, if any, responsible for calculating the principal and/or interest due (if not the Agent):	[ ]
	(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(d)	Person at whose option Specified Currency(ies) is/are payable:	[ ]

PROVISIONS RELATING TO REDEMPTION

22.	Issuer Call:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/[Spens Amount/Make-whole Amount/] *specify other*/see Appendix]
	(c)	If redeemable in part:	
		(i) Minimum Redemption Amount:	[ ]
		(ii) Maximum Redemption Amount:	[ ]

	(d)	Notice period:	[ ] (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*)
23.	Investor Put:		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Optional Redemption Date(s):	[ ]
	(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[ ] per Calculation Amount/*specify other*/see Appendix]
	(c)	Notice periods:	[ ] (*N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent or Trustee.*)
24.	Final Redemption Amount:		[[ ] per Calculation Amount/*specify other*/see Appendix]
25.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required):		[[ ] per Calculation Amount/*specify other*/ see Appendix] (*N.B. If the Final Redemption Amount is 100 per cent. of the nominal value (i.e. par), the Early Redemption Amount is likely to be par (but consider). If, however, the Final Redemption Amount is other than 100 per cent. of the nominal value, consideration should be given as to what the Early Redemption Amount should be.*)

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	Form of Notes:	[Bearer Notes [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event] [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event] (*N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 7 includes language substantially to the following effect:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]."*) [Registered Notes: [Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]
27.	Additional Financial Centre(s):	[Not Applicable/*give details*] (*Note that this paragraph relates to the date of payment and not the end dates of Interest Periods for the purposes of calculating the amount of interest, to which sub-paragraphs 17(c) and 19(g) relate*)
28.	Talons for future Coupons to be attached to Definitive Notes:	[Yes/No] (*If yes, give details*)
29.	Details relating to Instalment Notes:	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Instalment Amount(s):	[*give details*]
	(b) Instalment Date(s):	[*give details*]

30.	Redenomination applicable:	Redenomination [not] applicable [(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*)]
31.	Other terms or special conditions:	[Not Applicable/*give details*]
32.	Ratings:	[The Notes to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies)*] (*The above disclosure is only required if the ratings of the Notes are different to those stated in the Offering Circular*)
33.	Governing law:	English law

DISTRIBUTION

34.	Method of distribution		[Syndicated/Non-syndicated]
	(a)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
	(c)	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give name*]
35.	U.S. Selling Restrictions:		[Reg. S Category 1; TEFRA D/TEFRA C/TEFRA not applicable]
36.	Additional selling restrictions:		[Not Applicable/*give details*] (*Additional selling restrictions are only likely to be relevant for certain structured Notes, such as commodity-linked Notes*)

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading of the Notes described herein pursuant to the US$2,000,000,000 Medium Term Note Programme of Rizal Commercial Banking Corporation.

OPERATIONAL INFORMATION

ISIN:	[ ]
Common Code:	[ ]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]

Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s) (if any):	[Not Applicable/*give details*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of Rizal Commercial Banking Corporation

By: ______________________________
Duly authorised

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below), each Definitive Bearer Note and each Definitive Registered Note, but, in the case of Definitive Bearer Notes and Definitive Registered Notes, only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Bearer Note or definitive Registered Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by Rizal Commercial Banking Corporation (the **Issuer**) constituted by an Amended and Restated Trust Deed dated 5 February 2018 (such an Amended and Restated Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) and made between the Issuer and The Bank of New York Mellon, London Branch (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a **Global Note**), units of the lowest Specified Denomination in the Specified Currency;

(b) any Global Note in bearer form (each a **Bearer Global Note**);

(c) any Global Note in registered form (each a **Registered Global Note**);

(d) any definitive Notes in bearer form (**Definitive Bearer Notes** and, together with Bearer Global Notes, the **Bearer Notes**) issued in exchange for a Global Note in bearer form; and

(e) any definitive Notes in registered form (**Definitive Registered Notes** and, together with Registered Global Notes, the **Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement dated 5 February 2018 (such Amended and Restated Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and transfer agent (the **Transfer Agent**, which expression shall include any successor transfer agent), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar) and The Bank of New York Mellon, London Branch as paying agent (the **Paying Agent**, and together with the Principal Paying Agent and the Registrar, the **Paying Agents,** which expression shall include any additional or successor paying agent).

Interest-bearing Definitive Bearer Notes have interest coupons (**Coupons**) and, if indicated in the applicable Final Terms, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts

(**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Final Terms** are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Receiptholders** shall mean the holders of the Receipts and any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders, the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series; and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the specified office for the time being of the Trustee being at One Canada Square, 40th Floor, London E14 5AL, United Kingdom and at the specified office of the Principal Paying Agent, the Registrar, Transfer Agents and the other Paying Agents (the **Agents**). Copies of the applicable Final Terms are available for viewing at the registered office of the Issuer and the Principal Paying Agent, and copies may be obtained from those offices save that, if this Note is an unlisted Note of any Series, the applicable Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed, the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery, and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, S.A.(**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification (without further enquiry or evidence) as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned and the Trustee shall not be liable in any way for relying on such evidence and/or information.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that any of the Global Notes representing such Notes is exchanged for definitive Notes. In addition, in the event that any of the Global Notes is exchanged for definitive Notes, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear or Clearstream, Luxembourg shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear or Clearstream, Luxembourg or to a successor of Euroclear or Clearstream, Luxembourg or such successor's nominee.

2.2 Transfers of Registered Notes in definitive form

Subject as provided in paragraphs 2.5 and 2.6 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer:

(a) the Noteholder or Noteholders must:

(i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing; and

(ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and

(b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request.

Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of only part of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered during the period of (i) 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; and (ii) seven days ending on (and including) any Record Date (as defined in Condition 7.4).

2.6 Exchanges and transfers of Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

The Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any of the Notes remains outstanding, the Issuer will not and the Issuer shall ensure that no Principal Subsidiary will create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Notes and the Trust Deed (in respect of the Notes) are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Noteholders; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast) of the Notes.

4.2 Interpretation

For the purposes of these Conditions:

(a) **Relevant Indebtedness** means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other securities market; and (ii) any guarantee or indemnity of any such indebtedness;

(b) **Principal Subsidiary** means at any time a Subsidiary of the Issuer:

(i) whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose net assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, are equal to) not less than five per cent. of the consolidated net profits or, as the case may be, consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer and its Subsidiaries, provided that:

(A) if the then latest audited consolidated accounts of the Issuer and its Subsidiaries show (x) a net loss for the relevant financial period then there shall be substituted for the words “net profits” for the purposes of this definition and/or (y) negative assets at the end of the relevant financial period then there shall be substituted for the words “net assets” the words “total assets” for the purposes of this definition;

(B) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Issuer and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;

(ii) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (ii) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

(iii) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Issuer and its Subsidiaries relate, generate net profits equal to) not less than five per cent. of the consolidated net profits, or represent (or, in the case aforesaid, are equal to) not less than five per cent. of the consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net profits equal to) not less than five per cent. of the consolidated net profits, or its assets represent (or, in the case aforesaid, are equal to) not less than five per cent. of the consolidated net assets of the Issuer and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (i) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (iii) on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (i) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report signed by two Directors of the Issuer (whether or not addressed to the Trustee) delivered by the Issuer to the Trustee that in their opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary, may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall be conclusive and binding on all parties and the Trustee shall not be liable in any way for relying on such report.

(c) a **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights; or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors; or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

5. REDENOMINATION

5.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders but after prior consultation with the Trustee, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, provided that, if the Issuer determines, with the agreement of the Principal Paying Agent and the Trustee, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes held (or, as the case may be, in respect of which Coupons are presented for payment) by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 100,000 and/or such higher amounts as the Principal Paying Agent may determine and notify to the Noteholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 7; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent and the Trustee may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the **Exchange Notice**) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (provided that such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:

(i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes represented by such Global Note; and

(ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

(g) and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding;

(h) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest; and

(i) such other changes shall be made to this Condition as the Issuer may decide, after consultation with the Principal Paying Agent and the Trustee, and as may be specified in the notice, to conform it to conventions then applicable to instruments denominated in euro.

5.2 Definitions

In these Conditions, the following expressions have the following meanings:

Established Rate means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

Redenomination Date means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union; and

Relevant Notes means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

Treaty means the Treaty on the Functioning of the European Union, as amended.

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(a) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(b) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Determination Period; and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

(c) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Accrual Period divided by 365.

In these Conditions:

Determination Period means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

sub-unit means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in these Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur, or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(a) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(i) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis*; or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day; and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls in the Specified Period after the preceding applicable Interest Payment Date occurred; or

(b) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(c) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(d) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Singapore, Manila and London and any Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms; and

(ii) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and

(iii) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either (a) the applicable Floating Rate Option is based on the London interbank offered rate (LIBOR) or the Euro-zone interbank offered rate (EURIBOR), the first day of that Interest Period or (b) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of 6.2(b)(ii)(A) above, no such offered quotation appears or, in the case of 6.2(b)(ii)(B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(i) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(ii) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount,

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366; and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D_1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February; or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth Singapore Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression **Singapore Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in Singapore.

(f) Determination or Calculation by Agent Appointed by Trustee

If for any reason at any relevant time the Principal Paying Agent or, as the case may be, the Calculation Agent defaults in its obligation to determine the Rate of Interest or the Principal Paying Agent defaults in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above or as otherwise specified in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, engage another agent, at the Issuer's cost, to so determine the Rate of Interest at such rate as, in such agent's absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, such agent engaged by the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Principal Paying Agent or the Calculation Agent, as applicable. Provided that the Trustee shall have exercised due care in its selection of such agent, the Trustee shall not be liable by reason of any action, omission, inaction, misconduct or default on the part of any such agent.

(g) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent or the Trustee shall (in the absence of manifest error) be binding on the Issuer, the Trustee, the Principal Paying Agent, the Registrar, the Calculation Agent (if applicable), the other Paying Agents and all Noteholders, Receiptholders and Couponholders and (in the absence of its own wilful default, fraud or gross negligence), no liability shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent and (in the absence of its own wilful misconduct, fraud or gross negligence) no liability shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

6.5 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; or

(b) days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9,and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Section 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

7.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of Definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part-payment of any sum due, endorsement) of Definitive Bearer Notes, and payments of interest in respect of Definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part-payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part-payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part-payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Definitive Bearer Note to which it appertains. Receipts presented without the Definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of ten years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Definitive Bearer Note.

7.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Bearer Global Notes will (subject as provided below) be made in the manner specified above in relation to Definitive Bearer Notes or otherwise in the manner specified in the relevant Bearer Global Note against presentation or surrender, as the case may be, of such Bearer Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made against presentation or surrender of any Bearer Global Note, distinguishing between any payment of principal and any payment of interest, will be made on such Bearer Global Note by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

7.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part-payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date; and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account; or (ii) the principal amount of the Notes held by a holder is less than US$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date; and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences to the Issuer.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

(i) in the case of Notes in definitive form only, the relevant place of presentation;

(ii) each Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms; and

(b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and

(c) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefore, pursuant to the Trust Deed;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9 or under any undertaking or covenant given in addition thereto, or in substitution therefor, pursuant to the Trust Deed.

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

8.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 and not more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of a Tax Jurisdiction (as defined in Condition 9) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the Issuer (i) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment; and the Trustee shall be entitled to accept the certificate as conclusive evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders, the Receiptholders and the Couponholders and shall make available such certificates for inspection during normal business hours at its registered office for the time being.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders (in accordance with Condition 15); and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar,

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or only some of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the Selection Date). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this paragraph 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

8.4 Redemption of the Notes at the option of the Noteholders (Investor Put)

(a) If Investor Put is specified in the applicable Final Terms

If Investor Put is specified as being applicable in the applicable Final Terms, with respect to the Notes, upon the holder of any Notes giving to the Issuer in accordance with Condition 15 not less than 15 and not more than 30 days' notice (which notice shall be irrevocable) the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date(s) and at the Optional Redemption Amount(s) together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition 8.4 in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

(b) Put Notices

To exercise the right to require redemption of a Note the holder of the Note must:

(i) if the Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is a Definitive Bearer Note, the Put Notice must be accompanied by the Note or evidence satisfactory to the Paying Agent concerned that the Note will, following delivery of the Put Notice, be held to its order or under its control; and

(ii) if this Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of the Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on his instruction by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear and Clearstream, Luxembourg from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg given by a holder of any Note pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Trustee has declared the Notes to be due and payable pursuant to Condition 11, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4.

8.5 **Early Redemption Amounts**

For the purpose of Condition 8.2 above and Condition 11.1, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^{\text{Y}}$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360, or on such other calculation basis as may be specified in the applicable Final Terms.

8.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount of Instalment Notes will be determined pursuant to Condition 8.5.

8.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

8.8 Purchases

The Issuer or any Subsidiary of the Issuer may at any time purchase Notes (provided that, in the case of Definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

8.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and the Notes purchased and cancelled pursuant to Condition 8.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

8.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3 or 8.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; or

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Trustee and notice to that effect has been given to the Noteholders in accordance with Condition 15.

9. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment in the Republic of the Philippines; or

(b) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.6) or

(d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

Tax Jurisdiction means the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax; and

the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee, the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15.

10. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefore.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT AND ENFORCEMENT

11.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at its Early Redemption Amount together with accrued interest as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

(a) *Non-payment*: default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of five days in the case of principal and seven days in the case of interest; or

(b) *Breach of other obligations*: the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is determined to be incapable of remedy, such determination being binding on all parties and the Trustee shall not be liable for any such determination) the failure continues for the period of 14 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) *Cross-default*: (1) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any Subsidiary becomes due and repayable prematurely by reason of an Event of Default (however described); (2) the Issuer or any Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment; (3) any security given by the Issuer or any Subsidiary for any Indebtedness for Borrowed Money becomes enforceable; or (4) default is made by the Issuer or any Subsidiary in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person; provided that no event described in this subparagraph (c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money or other relative liability due and unpaid, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money and/or other liabilities due and unpaid relative to all (if any) other events specified in (1) to (4) above, amounts to at least US$15,000,000 (or its equivalent in any other currency); or

(d) *Winding up:* any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Principal Subsidiaries, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution; or

(e) *Enforcement proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out upon or against any of the assets or revenues of the Issuer or any Principal Subsidiary and is not discharged or stayed within 60 days; or

(f) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any Principal Subsidiary; or

(g) *Insolvency, etc*: the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by an Extraordinary Resolution, or the Issuer or any of its Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(h) *Appointment of receiver, manager, administrator:* (i) proceedings are initiated against the Issuer or any of its Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Principal Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them; and (ii) in any case (other than the appointment of an administrator) is not discharged within l4 days; or

(i) *Arrangement or Composition:* the Issuer or any of its Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(j) *Cessation of Business*: any Principal Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, except (i) for the purposes of, or pursuant to and followed by, a consolidation or amalgamation with, or merger into, the Issuer or any other Subsidiary or a consolidation, merger or sale of assets permitted under Condition 16.4; (ii) for the purposes of or pursuant to and followed by a consolidation, amalgamation, merger or reorganisation (other than as described in (i) above) the terms of which shall have previously been approved by an Extraordinary Resolution of the Noteholders; or (iii) by way of a voluntary winding-up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets are transferred to or otherwise vested in the Issuer or any other Subsidiary; or

(k) *Nationalisation*: any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of, in the case of the Issuer, all or a substantial part of its assets or, in the case of a Principal Subsidiary, all or substantially all of its assets; or

(l) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

(m) *Consent and authorisations*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Notes; (B) to ensure that those obligations are legally binding and enforceable, and to make the Notes admissible in evidence in the courts of England is not taken, fulfilled or done; or

(n) *Analogous event*: any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (d) to (m) above.

11.2 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes, the Receipts or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fifth in nominal amount of the Notes then outstanding; and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and the failure shall be continuing.

11.3 Interpretation

In these Conditions,

Indebtedness for Borrowed Money means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) there will at all times be a Registrar and a Transfer Agent which, so long as Registered Notes are listed on any stock exchange or admitted to listing by any other relevant authority, will have a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(d) so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if the Notes are issued in definitive form, there will at all times be a Paying Agent in Singapore.

In addition, the Issuer shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 and not more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholder, Receiptholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in Asia, which is expected to be the *Asian Wall Street Journal*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority, and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority, and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the third day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

16.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes or altering the currency of payment of the Notes, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Notes for the time being outstanding, or, at any adjourned such meeting, one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

16.2 Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

16.3 Substitution of Issuer

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of another company, being a Subsidiary of the Issuer, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer; (ii) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and (iii) certain other conditions set out in the Trust Deed being complied with.

16.4 Consolidation, Merger and Sale of Assets

The Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

(a) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental agency agreement the due and punctual payment of the principal of, and interest on, the Notes and the performance of the Notes, the Agency Agreement on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default with respect to the Notes, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Notes, shall have happened and be continuing;

(c) the Issuer has delivered to the Trustee (i) a certificate signed by two directors of the Issuer; and (ii) an opinion of independent legal advisers of recognised standing stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental agency agreement comply with this Condition 16.4 and that all conditions precedent relating to such transaction have been complied with; and

(d) immediately after giving effect to such consolidation, amalgamation or merger of the Issuer, no internationally recognised rating agency has, in respect of the Notes, issued any notice downgrading its credit rating for such Notes or indicating that it intends to downgrade its credit rating for such Notes.

17. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of its Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries; (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, Receiptholders or Couponholders; and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

20. GOVERNING LAW AND SUBMISSION TO JURISDICTION

20.1 Governing law

The Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes, the Receipts, the Coupons and the Talons are governed by, and shall be construed in accordance with, English law.

20.2 Submission to jurisdiction

(a) The Issuer irrevocably agrees, for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

(b) The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons (including any Proceeding relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes, the Receipts and the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20.3 Appointment of Process Agent

The Issuer appoints Law Debenture Corporate Services Limited at its registered officer at Fifth Floor, 100 Wood Street, London EC2V 7EX, England. as its agent for service of process, and undertakes that, in the event of Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person approved by the Trustee as its agent for service of process in England in respect of any Proceedings. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

20.4 Waiver of immunity

The Issuer hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information has been derived from (i) the audited consolidated financial statements of the Bank and its subsidiaries as of and for the years ended 31 December 2014, 2015 and 2016 and (ii) the unaudited consolidated financial statements of the Bank and its subsidiaries as of and for the nine months ended 30 September 2016 and 2017. The Bank's audited consolidated financial statements for the years ended 31 December 2014, 2015 and 2016 and the unaudited consolidated financial statements as of and for the nine months ended 30 September 2016 and 2017 have been prepared in accordance with PFRS for banks.

Investors should read the following summary of consolidated financial and other data relating to the Bank in conjunction with the financial statements and the related notes included elsewhere in this Offering Circular. See "*Index to Financial Statements*".

Consolidated Statements of Income

	For the year ended 31 December			For the nine months ended 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
			(₱ millions)		
INTEREST INCOME ON					
Loans and receivables	15,961	17,462	19,442	14,402	15,828
Investment securities	4,026	3,880	3,269	2,546	2,157
Others	213	178	426	301	415
	20,200	21,520	23,137	17,249	18,400
INTEREST EXPENSE ON					
Deposit liabilities	2,581	2,992	3,269	2,318	2,896
Bills payable and other borrowings	2,652	2,951	4,161	3,075	2,360
	5,233	5,943	7,430	5,393	5,256
NET INTEREST INCOME	14,967	15,577	15,707	11,856	13,144
IMPAIRMENT LOSSES –NET	2,509	2,350	1,770	1,283	1,566
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	12,458	13,227	13,937	10,573	11,578
OTHER OPERATING INCOME (CHARGES)					
Trading and securities gains – net	2,511	1,327	1,619	1,503	1,001
Service fees and commissions	2,794	3,473	3,164	2,352	2,345
Foreign exchange gains – net	271	260	276	240	574
Trust fees	297	286	294	224	208
Miscellaneous	1,229	1,309	1,761	1,383	1,303
	7,102	6,655	7,114	5,702	5,431
OTHER OPERATING EXPENSES					
Employee benefits	4,064	4,731	5,408	4,011	4,469
Occupancy and equipment – related	2,528	2,607	2,871	2,143	2,329
Taxes and licences	1,463	1,437	1,840	1,370	1,319
Depreciation and amortisation	1,577	1,611	1,766	1,278	1,422
Miscellaneous	4,604	4,675	5,470	4,262	3,459
	14,236	15,061	17,355	13,064	12,998
PROFIT BEFORE TAX	5,324	4,821	3,696	3,211	4,011
TAX EXPENSE / (INCOME)	914	(307)	(174)	(290)	605

	For the year ended 31 December			For the nine months ended 30 September	
	2014	2015	2016	2016	2017
			(₱ millions)		
NET PROFIT................................	4,410	5,128	3,870	3,501	3,406
NET PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS......	**(1)**	**(1)**	**2**	**2**	**2**
ATTRIBUTABLE TO: PARENT COMPANY SHAREHOLDERS.......................	4,411	5,129	3,868	3,499	3,404
Basic				2.50	2.43
Diluted				2.50	2.43

Consolidated Statements of Financial Position

	As of 31 December			As of 30 September
	2014	2015	2016	2017
		(₱ millions)		
Cash and other cash items	13,085	14,070	15,176	11,729
Due from the Bangko Sentral ng Pilipinas................	46,099	50,617	66,520	58,143
Due from other banks	16,600	19,701	25,293	17,937
Loans and receivables arising from reverse repurchase agreement	-	-	7,889	4,969
Trading and investment securities – net...................	100,790	111,201	75,622	68,091
Loans and receivables – net	261,574	299,119	306,167	339,099
Investment in associates – net................................	321	363	383	449
Bank premises, furniture, fixtures and equipment – net	7,031	7,602	8,876	8,910
Investment properties – net.....................................	5,355	3,370	3,229	3,525
Deferred tax assets	-	-	-	2,096
Other resources – net	7,050	10,018	12,038	9,437
TOTAL RESOURCES	**457,905**	**516,061**	**521,193**	**524,385**
Deposit Liabilities	315,761	342,362	353,077	374,574
Bills payable	39,799	49,404	37,643	28,979
Bonds payable	23,486	39,364	41,595	28,552
Accrued taxes, interest and other expenses	4,671	4,453	4,823	3,972
Subordinated debt..	9,921	9,936	9,952	9,964
Other liabilities..	11,136	12,413	11,970	13,294
TOTAL LIABILITIES..	404,774	457,932	459,060	459,335
EQUITY..	53,131	58,129	62,133	65,050
TOTAL LIABILITIES AND EQUITY.........................	**457,905**	**516,061**	**521,193**	**524,385**

Selected Financial Ratios

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(₱ millions)			
Return on assets[(1)]	1.0	1.1	0.8	0.9
Return on shareholders' equity[(2)]	9.2	9.3	6.4	7.2
Net interest margin[(3)]	4.3	4.2	4.1	4.3
Cost-income margin[(4)]	64.5	67.7	76.0	70.0
Loans-to-deposits[(5)]	82.3	86.7	89.1	90.2
Tier I capital adequacy ratio[(6)]	11.8	12.5	12.9	12.4
Total capital adequacy ratio[(7)]	15.4	15.7	16.2	15.5
Total equity-to-total assets[(8)]	11.6	11.3	11.9	12.4
Total non-performing loans to-total loans – excluding interbank loans[(9)]	1.0	0.8	1.0	1.4
Total non-performing loans-to-total loans – including interbank loans[(10)]	1.0	0.8	1.0	1.4
Allowances for loan impairment losses to total gross loans[(11)]	1.9	1.9	2.2	1.9
Allowances for loan impairment losses-to- total non-performing loans[(12)]	96.1	105.2	110.6	78.0
Earnings per share (₱)[(13)]	3.1	3.07	2.76	3.25

Notes:

(1) Net income divided by average total resources for the period indicated.

(2) Net income divided by average total capital funds for the period indicated.

(3) Net interest income divided by average interest-earning assets.

(4) Total operating expenses divided by the sum of net interest income and other income.

(5) Total gross loans divided by total deposits.

(6) Tier I capital divided by total risk-weighted assets (computed using Basel III standards).

(7) Total capital divided by total risk-weighted assets (computed using Basel III standards).

(8) Total capital funds divided by total resources.

(9) Total non-performing loans divided by total loans excluding interbank loans.

(10) Total non-performing loans divided by total loans including interbank loans.

(11) Total allowance for loan impairment losses divided by total gross loans.

(12) Total allowance for loan impairment losses divided by non-performing loans.

(13) Net income divided by weighted average common shares.

RECENT FINANCIAL DEVELOPMENTS

The following is a summary discussion of the changes in the financial information of the Bank as of and for the nine months ended 30 September 2017.

Comparison of the Unaudited Consolidated Statement of Financial Position as of 30 September 2017 to the Audited Statement of Financial Position as of 31 December 2016

Resources

Cash and other cash items decreased by 22.7 per cent. or ₱3.4 billion from ₱15.2 billion as of 31 December 2016 to ₱9.5 billion (U.S.$230.8 million) as of 30 September 2017, primarily as a result of lower overnight deposit and term deposit placements.

Amounts due from the BSP decreased by 12.6 per cent. or ₱8.4 billion from ₱66.5 billion as of 31 December 2016 to ₱58.1 billion (U.S.$1.1 billion) as of 30 September 2017, primarily as a result of a decrease in overnight deposit and term deposit placements. Amounts due from other banks decreased by 29.1 per cent. or ₱7.4 billion from ₱25.3 billion as of 31 December 2016 to ₱17.9 billion (U.S.$353.0 million) as of 30 September 2017, primarily as a result of a decrease in foreign bank placements.

Loans under reverse repurchase agreement (net) decreased by 37.0 per cent. or ₱29.0 billion from ₱7.9 billion as of 31 December 2016 to ₱5.0 billion (U.S.$97.8 million) as of 30 September 2017, primarily as a result of lower placements with the BSP. Loans and receivables (net) increased by 10.8 per cent. or ₱32.9 billion from ₱306.2 billion as of 31 December 2016 to ₱339.1 billion (U.S.$6.7 billion) as of 30 September 2017, primarily as a result of an increase in the volume of loan releases.

Trading and investment securities decreased by 10.0 per cent. or ₱7.5 billion from ₱75.6 billion as of 31 December 2016 to ₱68.1 billion (U.S.$1.3 billion) as of 30 September 2017, primarily as a result of a decrease in financial assets at fair value through profit or loss. Investments in associates (net) increased by 17.2 per cent. or ₱0.1 billion from ₱0.4 billion as of 31 December 2016 to ₱0.4 billion (U.S.$8.8 million) as of 30 September 2017, primarily as a result of additional equity income from associates.

Bank premises, furniture, fixtures and equipment (net) increased by 0.4 per cent. or ₱34.0 billion from ₱8.9 billion as of 31 December 2016 to ₱8.9 billion (U.S.$175.3 million) as of 30 September 2017. Investment properties (net) increased by 9.2 per cent. or ₱0.3 billion from ₱3.2 billion as of 31 December 2016 to ₱3.5 billion (U.S.$69.4 million) as of 30 September 2017, primarily as a result of additional foreclosed properties made by the Bank's subsidiaries.

Deferred tax assets increased by ₱2.1 billion from nil as of 31 December 2016 to ₱2.1 billion (U.S.$41.2 million) as of 30 September 2017. Other resources (net) decreased by 21.6 per cent. or ₱2.6 billion from ₱9.9 billion as of 31 December 2016 to ₱9.4 billion (U.S.$185.7 million) as of 30 September 2017.

As a result of the foregoing, consolidated total resources increased by 0.6 per cent. or ₱3.2 billion from ₱521.2 billion as of 31 December 2016 to ₱524.4 billion (U.S.$10.3 billion) as of 30 September 2017.

Liabilities and Capital Funds

Deposit liabilities increased by 6.1 per cent. or ₱21.5 billion from ₱353.1 billion as of 31 December 2016 to ₱374.6 billion (U.S.$7.4 billion) as of 30 September 2017, primarily as a result of an increase in deposits driven by newly opened business centres.

Bills payable decreased by 23.0 per cent. or ₱8.7 billion from ₱37.6 billion as of 31 December 2016 to ₱29.0 billion (U.S.$570.3 million) as of 30 September 2017, primarily as a result of the settlement of high cost borrowings. Bonds payable decreased by 31.4 per cent. or ₱13.0 billion from ₱41.6 billion as of 31 December 2016 to ₱28.6 billion (U.S.$561.9 million) as of 30 September 2017, primarily as a result of the maturity of the U.S.$275 million senior notes in January 2017. Subordinated debt increased by 0.1 per cent. or ₱12 million from ₱10.0 billion as of 31 December 2016 to ₱10.0 billion (U.S.$196.1 million) as of 30 September 2017.

Accrued taxes, interest and other expenses decreased by 17.6 per cent. or ₱0.9 billion from ₱4.8 billion as of 31 December 2016 to ₱4.0 billion (U.S.$78.2 million) as of 30 September 2017, primarily as a result of lower accruals for interest and various expenses and full settlement of the monetary sanction imposed by the BSP. Other liabilities increased by 11.1 per cent. or ₱1.3 billion from ₱12.0 billion as of 31 December 2016 to ₱13.3 billion (U.S.$261.6 million) as of 30 September 2017, primarily as a result of an increase in the volume of manager's check payables.

As a result of the foregoing, consolidated total liabilities increased by 0.1 per cent. or ₱0.3 billion from ₱459.1 billion as of 31 December 2016 to ₱459.3 billion (U.S.$9.0 billion) as of 30 September 2017.

The Bank's capital funds increased by 4.7 per cent. or ₱2.9 billion from ₱62.1 billion as of 31 December 2016 to ₱65.1 billion (U.S.$1.3 billion) as of 30 September 2017.

The Bank pays out dividends commensurate to income performance. From 1 January 2017 to 30 September 2017, the Bank paid a total of ₱772.9 million (U.S.$15.2 million) cash dividends (20.0 per cent. of 2016 net income or a dividend pay-out ratio (dividends per share/prior year's earnings per share) of 20.0 per cent.).

Comparison of the Unaudited Consolidated Statement of Income for the Nine Months Ended 30 September 2017 to the Unaudited Consolidated Statement of Income for the Nine Months Ended 30 September 2016

Net Interest Income

Interest income on loans and receivables increased by 9.9 per cent. or ₱1.4 billion from ₱14.4 billion for the nine months ended 30 September 2016 to ₱15.8 billion (U.S.$311.5 million) for the nine months ended 30 September 2017, primarily as a result of an increase in the Bank's loan portfolio. Interest income on investment securities decreased by 15.3 per cent. or ₱0.4 billion from ₱2.5 billion for the nine months ended 30 September 2016 to ₱2.2 billion (U.S.$42.4 million) for the nine months ended 30 September 2017, primarily as a result of lower average daily balance volume and average yield of securities. Other interest income increased by 6.7 per cent. or ₱1.2 billion from ₱0.3 billion for the nine months ended 30 September 2016 to ₱0.4 billion (U.S.$8.2 million) for the nine months ended 30 September 2017, primarily as a result of an increase in income from BSP placements.

Interest expense on deposit liabilities increased by 24.9 per cent. or ₱0.6 billion from ₱2.3 billion for the nine months ended 30 September 2016 to ₱2.9 billion (U.S.$57.0 million) for the nine months ended 30 September 2017, primarily as a result of the higher average volume of time deposits. Interest expense on bills payable and other borrowings decreased by 23.3 per cent. or ₱0.7 billion from ₱3.1 billion for the nine months ended 30 September 2016 to ₱2.4 billion (U.S.$46.4 million) for the nine months ended 30 September 2017, primarily as a result of the maturity of the U.S.$275 million senior notes in January 2017.

As a result of the foregoing, net interest income increased by 10.9 per cent. or ₱1.3 billion from ₱11.9 billion for the nine months ended 30 September 2016 to ₱13.1 billion (U.S.$258.7 million) for the nine months ended 30 September 2017.

Other Operating Income

Trading and securities gain (net) decreased by 33.4 per cent. or ₱0.5 billion from ₱1.5 billion for the nine months ended 30 September 2016 to ₱1.0 billion (U.S.$19.7 million) for the nine months ended 30 September 2017, primarily as a result of a decrease in realised trading gains from securities sold.

Service fees and commissions decreased by 0.3 per cent. or ₱7.0 billion from ₱2.4 billion for the nine months ended 30 September 2016 to ₱2.3 billion (U.S.$46.1 million) for the nine months ended 30 September 2017.

Foreign exchange gains (net) increased by 139.2 per cent. or ₱0.3 billion from ₱0.2 billion for the nine months ended 30 September 2016 to ₱0.6 billion (U.S.$11.3 million) for the nine months ended 30 September 2017, primarily as a result of higher volatility in the market.

Trust fees decreased by 7.1 per cent. or ₱16.0 million from ₱0.2 billion for the nine months ended 30 September 2016 to ₱0.2 billion (U.S.$4.1 million) for the nine months ended 30 September 2017, primarily as a result of lower volume of unit investment trust fund accounts.

Miscellaneous income decreased by 5.9 per cent. or ₱0.1 billion from ₱1.4 billion for the nine months ended 30 September 2016 to ₱1.3 billion (U.S.$25.6 million) for the nine months ended 30 September 2017, primarily as a result of a decrease in dividend income.

As a result of the foregoing, other operating income decreased by 4.8 per cent. or ₱0.3 billion from ₱5.7 billion for the nine months ended 30 September 2016 to ₱5.4 billion (U.S.$106.9 million) for the nine months ended 30 September 2017.

Other Operating Expense

Employee benefits increased by 11.4 per cent. or ₱0.5 billion from ₱4.0 billion for the nine months ended 30 September 2016 to ₱4.5 billion (U.S.$87.9 million) for the nine months ended 30 September 2017, primarily as a result of an increase in the Bank’s headcount due to branch expansion.

Occupancy and equipment related expenses increased by 8.7 per cent. or ₱0.2 billion from ₱2.1 billion for the nine months ended 30 September 2016 to ₱2.3 billion (U.S.$45.8 million) for the nine months ended 30 September 2017, primarily as a result of branch expansion.

Depreciation and amortisation increased by 11.3 per cent. or ₱0.1 billion from ₱1.3 billion for the nine months ended 30 September 2016 to ₱1.4 billion (U.S.$28.0 million) for the nine months ended 30 September 2017, primarily as a result of the establishment of additional banking channels, renovation of existing branches and acquisition of equipment for lease.

Taxes and licences decreased by 3.7 per cent. or ₱0.1 billion from ₱1.4 billion for the nine months ended 30 September 2016 to ₱1.3 billion (U.S.$26.0 million) for the nine months ended 30 September 2017.

Miscellaneous expenses decreased by 18.8 per cent. or ₱0.8 billion from ₱4.3 billion for the nine months ended 30 September 2016 to ₱3.5 billion (U.S.$68.1 million) for the nine months ended 30 September 2017, primarily as a result of the ₱1.0 billion fine imposed by the BSP in 2016.

As a result of the foregoing, other operating expenses decreased by 0.5 per cent. or ₱0.1 billion from ₱13.1 billion for the nine months ended 30 September 2016 to ₱13.0 billion (U.S.$255.8 million) for the nine months ended 30 September 2017.

Tax expense

Tax expense increased by 308.7 per cent. or ₱0.9 billion from tax income of ₱290.0 million for the nine months ended 30 September 2016 to ₱0.6 billion (U.S.$11.9 million) for the nine months ended 30 September 2017, primarily as a result of the origination and reversal of temporary differences.

Net Profit

As a result of the foregoing, net profit decreased by 2.7 per cent. or ₱0.1 billion from ₱3.5 billion for the nine months ended 30 September 2016 to ₱3.4 billion (U.S.$67.0 million) for the nine months ended 30 September 2017.

USE OF PROCEEDS

The net proceeds from each issue of each Notes (after deducting underwriting fees and commissions associated with the issue of the Notes) will be applied by the Bank to finance its operations and for its general corporate purposes.

INVESTMENT CONSIDERATIONS

The Bank believes, having made all reasonable enquiries, that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. Most of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

Prospective investors should pay particular attention to the fact that the Bank and its activities are governed by the legal, regulatory and business environment in the jurisdictions where it carries out its business and which may differ in some respects from that which prevails in other countries. Prospective investors should also note that certain statements set out below constitute "forward-looking statements" as discussed above.

The following describes some of the significant investment considerations that could affect the Bank, the Programme and the value of the Notes. In addition, some risks may be unknown to the Bank and other risks, currently believed to be immaterial, could turn out to be material. All of these could have a material adverse effect on the Bank's business, cash flows, financial condition, results of operations and prospects.

The Bank believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but its inability to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by it based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. Prospective investors are recommended to seek independent advice concerning legal, accounting and tax issues relating to the specific circumstances of individual investors before deciding whether or not to invest in any Notes.

General Information

This Offering Circular describes in general terms some of the issues and risks which prospective investors should consider before making an investment in any Notes. This Offering Circular is not intended to provide and explain comprehensively all information, or to provide an in-depth analysis, necessary to make an evaluation of the financial consequences of investing in any Notes. This Offering Circular should not be construed as a recommendation to invest in any Notes, and prospective investors should invest in any Notes only if the relevant Notes are consistent with the investor's financial objectives.

Investors should be aware that Notes are exposed to market conditions of a general nature. Accordingly, the market price of any Notes may be influenced by, for example, economic factors that cannot be foreseen at the time of investment. Investors should be aware that the number of Notes of any Series in circulation may fluctuate over the term of the relevant Notes and that the marketability of a Series of Notes in the secondary market may change over the term of such Notes, thus limiting investors' ability to sell such Notes. In conducting its business activities, the Issuer assumes risks of a varying nature, any and all of which may affect the Issuer's performance and the value of any Notes.

Risks Relating to the Bank

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility

In recent years, the performance of the Bank's treasury operations has been a key factor in its operating income. The Bank's income from these activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates, debt prices, stock market fluctuations, economic, political and other conditions that may fluctuate from time to time. Given the potential and possible unfavourable conditions in the global financial markets, there can be no assurance that, in the future, the Bank will be able to realise a stable amount of trading and foreign exchange gains, that it will not incur a loss from such trading activities or that it will hold on to its trading and investment securities to realise interest income, any or all of which could have a material adverse effect on the Bank's future net income.

A substantial portion of the Bank's assets are held in the form of Government securities. Such instruments are subject not only to market fluctuations but also to political or economic changes in the Government's sovereign rating. There can be no assurance that the rating of Philippine sovereign debt will not be subject to downgrades or negative outlooks. Furthermore, should the Government be unable to service its obligations, the Bank would suffer a material adverse impact on its financial condition.

With the Bank's adoption of PFRS 9 effective 1 January 2014, its investment securities may be classified as either Hold to Collect (**HTC**) which are measured at amortized cost, or Fair Value Through Profit and Loss (**FVTPL**) which are measured at market value. HTC securities are those that are held with the objective of holding the instruments to collect contractual cash flows while FVTPL securities are those that are held in order to sell them prior to contractual maturity and realize changes in fair value. The Bank sells HTC securities whenever permitted by the Bank's business model and allowed under PFRS 9. The Bank may change its business model and decide that securities previously classified as HTC should instead be reclassified as FVTPL. Although changes in the Bank's business model are expected to be rare, any change could materially alter the values of the securities reflected in the financial statements and could add to the volatility of the Bank's income.

The Bank may face increasing levels of non-performing loans and provisions for impairment of assets

The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans (**NPLs**). For the financial years 2014, 2015, 2016 and for the nine months ended 30 September 2017, the Bank made charges to income provisions for impairment of ₱2,509 million, ₱2,350 million, ₱1,770 million, and ₱1,566 million (U.S.$30.8 million), respectively, representing approximately 16.8 per cent., 15.1 per cent., 11.3 per cent., and 11.9 per cent. of the Bank's net interest income for these periods.

As of 31 December 2014, 2015, 2016 and 30 September 2017, the Bank's NPLs totalled ₱2,636 million, ₱2,305 million, ₱3,065.3 million, and ₱4,834.8 million (U.S.$95.1 million), respectively.

On-going volatile economic conditions in the Philippines could adversely affect many of the Bank's customers, causing uncertainty regarding their ability to fulfil their loan obligations, thus, significantly increasing the Bank's exposure to credit risk. These and other factors could result in an increased number of NPLs in the future and would require the Bank to book additional provisions for impairment on loans.

While the Bank has instituted more aggressive NPL recovery, resolution and disposal activities and stricter credit processes, there can be no assurance that the Bank will be successful in continuing to reduce its NPL levels. An increase in the Bank's NPLs could have a material adverse effect on its financial condition, capital adequacy and results of operations. Part of the Bank's NPL disposal strategy is to continue to sell NPLs to SPVs. The Bank may not be able to sell its NPLs at commercially reasonable terms, if at all. In addition, certain of the Bank's past sales to SPVs have not sufficiently transferred the risks and rewards of the sold NPLs to the SPVs in accordance with the applicable accounting standards. If the Bank were to include these NPLs in its statement of condition, it would be required to increase its impairment losses and its financial condition and results of operations would be negatively affected.

The Bank's provisioning policies in respect of NPLs require significant subjective determinations and are based on Philippine regulations which may result in a variation of how these policies are applied and may be less stringent than those in other countries

BSP regulations require that Philippine banks classify NPLs based on different categories corresponding to levels of credit risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

Furthermore, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards. The level of provisions currently recognised by the Bank in respect of its loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio. The level of the Bank's provisions may not be adequate to cover increases in the amount of its NPLs, or any deterioration in the overall credit quality of the Bank's loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

Certain accounting standards have been adopted in the Philippines, based on International Financial Reporting Standards, which require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. These accounting standards may result in the Bank recognising significantly higher provisions for loan loss in the future. The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations which may expose the Bank to significant losses.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher level of provisions in the future. If the Bank fails to properly appraise or review its collateral or its appraised value declines, the Bank's provisions may be inadequate and the Bank may be required to make further provisions, which could have a material adverse effect on its business, financial condition and results of operations.

The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses

As of 31 December 2014, 2015, 2016, and 30 September 2017, respectively, the Bank's secured loans represented 52.4 per cent., 52.4 per cent., 51.1 per cent. and 45.0 per cent. of the Bank's total loans. As of those dates, 25.0 per cent., 26.8 per cent., 25.7 per cent. and 23.3 per cent, respectively, of the total loans consisted of real estate properties as collateral.

The Bank may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realise the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the bid price and the loan balance plus accrued interest at the time of such foreclosures. While the Bank, at each statement of condition date, provides impairment on its foreclosed properties in accordance with applicable accounting standards and BSP regulations, it may incur further expenses to maintain such properties. In realising cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation.

The value of the Bank's collateral may be overstated and may decline in the future

The value of the Bank's collateral may be overstated and may not accurately reflect the net recovery it is likely to receive from the sale of such collateral. Certain of the Bank's collateral valuations may be outdated and may not accurately reflect the current market value of its collateral. In certain instances, no purchasers may exist for a particular type of collateral, thereby rendering it effectively worthless. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, could mean that the Bank's loan loss provisions for the relevant loans are inadequate and could require an increase in such provisions. Any increase in the Bank's provisions would adversely affect its results of operations and financial condition as well as the Bank's capital adequacy ratio, which could result in a need for the Bank to raise additional capital.

The Bank's focus on customers with lower incomes and the micro-financing business exposes the Bank to a high degree of credit risk and may have a detrimental effect on both the Bank's loan and deposit base as well as its NPLs

The Bank is engaged in the micro-financing business and is focusing on lending to customers with lower incomes in order to grow its business and increase its net interest margin. Lending to customers in this sector and conducting a micro-finance business both have specific requirements for risk management procedures, guidelines, systems, credit appraisal monitoring and loan recovery. Given the limited availability of independent financial information on Philippine borrowers, the Bank is exposed to higher credit risk in the consumer and micro-finance sectors as compared to banks in developed markets. Aggressive loan pricing by competitors and interest rate ceilings imposed by the Government may result in a lower net interest margin. In addition, slower economic growth and high inflation may cause significant deterioration in the purchasing power of consumers, thus resulting in a reduced loan demand and higher NPLs. The Bank's inability to manage these risks associated with this customer segment could have a material adverse effect on its business, financial condition and results of operations.

The Bank may not be successful in implementing new business strategies or penetrating new markets

The Bank's business strategy includes expanding the range of its products and services in order to diversify its revenue sources. For example, the Bank has targeted overseas remittances and loans to small and medium sized enterprises (**SME**) as key areas of growth. The Bank believes its strategy is necessary to enable the Bank to increase loans in a sustained and prudent manner, to grow a stable deposit base and to maintain its net interest margin and profitability. In addition, the Bank, through its subsidiary RSB (as defined below), is expanding its consumer loan operations. Expansion of the Bank's business activities to increase the number of financial products and services that it offers exposes it to a number of risks and challenges including, among others,

- new and expanded business activities may require greater marketing and compliance costs than the Bank's traditional services;

- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;

- the Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage with competitors;

- the Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus the Bank may not be able to attract customers from its competitors;

- the Bank may need to enhance the capability of its IT systems to support a broader range of activities; and

- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

The Bank's inability to implement its business strategy could have a material adverse effect on its business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios

The Bank, primarily through RSB, has expanded its consumer loan operations. In addition, the Bank plans to continue expanding its credit card operations. These developments increase the Bank's exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's personal loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, while reducing demand for consumer loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other negative macroeconomic factors.

There can be no assurances that the Bank will be successful in its consumer debt operations or that it will not continue to incur losses. Continued losses from consumer debt operations will negatively affect the Bank's results of operations.

The Bank's results may not be indicative of the Bank's future performance

The Bank's results in the future are dependent upon many factors, including among other factors, the Bank's ability to implement its business strategies, economic growth in the Philippines, performance of its loan portfolio and fluctuation in interest rates and exchange rates. There can be no assurance that the Bank will be profitable or will not incur operating losses in the future, which may be significant.

The Bank has a high exposure to the Philippine property market through real and other properties acquired (ROPA) and its lending to customers in the real estate industry

The Bank has significant exposure to the Philippine property market due to the level of its holdings in ROPA and its loans to customers in the real estate industry. The Bank acquires ROPA when it forecloses on the mortgage over collateral provided by a borrower or whenever assets, usually real estate, are conveyed to or acquired by the Bank as payment. Accordingly, the level of the Bank's ROPA varies based on the level of its NPLs. As of 30 September 2017, the Bank's gross ROPA amounted to approximately ₱2,432 million (U.S.$47.9 million), which represented 0.5 per cent. of the Bank's total tangible assets. The Bank's outstanding loans to customers in the real estate industry amounted to ₱57,874 million, ₱76,052 million, ₱70,532 million, and ₱78,160.3 million (U.S.$1,538.1 million) as of 31 December 2014, 2015, 2016, and 30 September 2017, respectively, representing

22.3 per cent., 25.6 per cent., 23.1 per cent., and 23.1 per cent., respectively, of its total loans as of those dates.

The Bank periodically disposes of its ROPA in and through public auctions, sealed bidding and negotiated sales at prevailing market prices. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices are affected by a number of factors, including, among other things, the supply of, and demand for, comparable properties, the rate of economic growth in the Philippines and recent political and economic developments. Property prices in recent years have been a function of interest rates and financing costs, with interest rates being at near-record lows and increasing the demand for real estate, resulting in increased property prices. Further, housing backlog in the Philippines, estimated at about six million to seven million units, has supported demand for residential properties.

To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell and recover the value of the ROPA stated in the financial statements or that the ability of the Bank's customers in the real estate industry to make timely payment on their loans will not deteriorate. Furthermore, in an extended downturn in the property market, and given the Bank's significant amount of ROPA, it may take a number of years before the Bank is able to realise a significant part of the value of its ROPA. Finally, the Bank is required to recognise annual provisions against ROPA based on the difference between the market value, net of estimated selling costs, and book value. As of 30 September 2017, on a non-consolidated basis, approximately ₱615 million (U.S.$12.4 million) of ROPA had been held by the Bank for more than five years and the provisions for these ROPA amounted to ₱4.4 million (U.S.$0.1 million).

As a result of these provisioning requirements, if the Bank is unable to dispose of its ROPA, it may be required to recognise levels of provisions in future years which are higher than those currently recognised by the Bank. Furthermore, if the Bank's customers in the real estate industry fail to make timely payment on their loans, the Bank may have to set aside additional provisions for impairment losses. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA or its loans extended to customers in the real estate industry, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations.

The Bank may have to comply with stricter regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP and the Bureau of Internal Revenue and international bodies, including the Financial Action Task Force (the FATF)

The Bank is regulated principally by, and has reporting obligations to, the BSP. It is also subsidiarily regulated, and has reporting and disclosure obligations to, the SEC, the PSE, and the AMLC (as defined below). The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines.

While the Philippines enacted the Anti-Money Laundering Act of 2001 (**the Anti-Money Laundering Act** or **AMLA**) to introduce more stringent anti-money laundering (**AML**) regulations, these regulations did not initially comply with the standards set by the FATF. However, following pressure from the FATF, an amendment to the AMLA became effective on 23 March 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories and the AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. Currently, the Philippines is on the "grey list," as the FATF, in news reports, noted a “high-level political commitment” from local authorities to address noted deficiencies in its AML regime.

A recent amendment to the AML regime, Republic Act No. 10168, was enacted on 18 June 2012. This law defined the crime of financing of terrorism. This is one of the last pending amendments to the AML regime requested by the FATF, however, it is noted that this is not a guarantee that the Philippines will not be blacklisted or will be removed from the watch list.

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA to include “covered persons, natural and juridical.” Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million and the Land Registration Authority for real estate purchases in excess of P500,000. Furthermore, the enumeration of predicate crimes expanded to include 20 additional crimes including bribery, extortion, malversation of public funds, fraud and financing of terrorism.

In 2016, the Anti-Money Laundering Council (**AMLC**) approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP circular no. 950 which further expanded covered persons to include company service providers, and person who manage their client’s money, security or other assets, manage bank or securities accounts, organise funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

In July 2017, Republic Act No. 109271 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an ex parte petition by the AMLC shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

Under the AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Philippine Court of Appeals, upon verified *ex parte* application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order, which shall be effective immediately and which shall not exceed six months depending upon the circumstances of the case.

BSP Circular No. 495 (2005), as amended by BSP Circular No. 527 (2006), requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank’s attention, transactions and/or accounts that qualify either as “covered transactions” or “suspicious transactions” as defined under the AMLA.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (**ARRS**), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention programme duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines, could have a material adverse effect on the Bank's business, financial condition and results of operations. As part of the administrative sanctions, the AMLC may impose sanctions, monetary penalties, warnings or reprimands and fines upon any covered person, its directors, its officers and employees for violation of the AMLA or its implementing rules and regulations, or for failure to comply with AMLC orders, resolutions or issuances. The monetary penalties are in amounts as may be determined by the AMLC, taking into consideration all relevant circumstances, but not exceeding ₱500,000 per violation. The imposition of administrative sanctions is without prejudice to the filing of criminal charges against persons responsible for violations. There are penalties for, among other offences, failure to keep records, malicious reporting and breach of confidentiality.

The Bank may face potential pressure on its capital due to Basel III

On 17 December 2009, the Basel Committee on Banking Supervision (the **BCBS**) proposed a number of fundamental reforms to the regulatory capital framework. On 16 December 2010, BCBS released two documents entitled "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III: International Framework for Liquidity Risk Management, Standards and Monitoring" and on 13 January 2011 issued a press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" (collectively **Basel III**). The proposed reforms will require instruments to comply with the new eligibility criteria in order to obtain regulatory capital treatment and will introduce a deduction approach to regulatory adjustments and treatment of equity investments in non-financial and non-allied undertakings.

The revised guidelines would essentially require banks to hold more capital of higher quality. The minimum capital adequacy ratio will remain at 10.0 per cent. However, the BSP will adopt a minimum Common Equity Tier 1 (**CET1**) ratio of 6.0 per cent., a minimum Tier 1 ratio of 7.5 per cent., and a capital conservation buffer of 2.5 per cent. As of the date of this Offering Circular, the BSP does not envisage adopting the countercyclical capital buffer, though this remains subject to further review. The full adoption of the new minimum ratios, including the capital conservation buffer, began on 1 January 2014. The regulatory deductions were likewise deducted in full from CET1 on this date. Regulatory capital instruments that were rendered ineligible under the minimum conditions of Basel III qualified as regulatory capital only until the end of 2013.

On 29 October 2014, the BSP issued Circular No. 856 on the Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III (the **Guidelines**). The Guidelines were issued in accordance and essentially aligned with the reform packages proposed by Basel III specifically on global systemically important banks (**GSIBs**) and Domestic Systemically Important Banks (**DSIBs**). It was explained that the broad aim of the policies is to reduce the probability of failure of DSIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic or real economy. It is intended that the submission of data requirements for the identification of DSIBs will take effect starting with 2014 data while compliance with the additional higher loss absorbency requirement will be phased in from 1 January 2017 with full implementation envisioned by 1 January 2019.

The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as DSIBs. In assessing DSIBs, supervisory judgment may also be utilized based on the principles set forth in the circular. Using cluster analysis, DSIBs will be initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually, and DSIBs reallocated as a result.

Banks identified as DSIBs will be required to have higher loss absorbency (**HLA**). This higher requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital.

The magnitude of additional loss absorbency for the higher populated bucket will be 2.5 per cent. of risk-weighted assets at all times, with the initial empty bucket at 3.5 per cent. of risk-weighted assets, and 1.5 per cent. for the lower bucket:

Bucket	**Score Range**	**Minimum additional loss absorbency (common equity as a percentage of risk-weighted assets)**
3 (empty)	B–C	3.5 per cent.
2	A–B	2.5 per cent.
1	Cut-off point – A	1.5 per cent.

The HLA requirement for DSIBs is envisioned to be on top of the capital conservation buffer (**CCB**) under BSP Circular No. 781. The total CET1 capital requirement for DSIBs will be as follows:

Bucket	**Minimum CET1 Requirement (a)**	**Capital Conservation Buffer (b)**	**DSIB HLA Requirement (c)**	**Total Additional CET1 Requirement (b+c)**	**Total Required CET1 (a+b+c)**
3 (empty)	6.0 per cent.	2.5 per cent.	3.5 per cent.	6 per cent.	12.0 per cent.
2	6.0 per cent.	2.5 per cent.	2.5 per cent.	5 per cent.	11.0 per cent.
1	6.0 per cent.	2.5 per cent.	1.5 per cent.	4 per cent.	10.0 per cent.

Transitional arrangements to implement the HLA requirement will be implemented. In the case of banks included in the first list of DIBS (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement will be phased-in starting 1 January 2017, with full compliance ion 1 January 2019. After the phase-in period, banks identified as DSIBs will have 18 months to comply with the required HLA.

Data Cut-Off	**Release of DSIBs List**	**Compliance Period**
December 2014	June 2015	Phased-in: 1 January 2017 – 1 January 2019
December 2015	June 2016	Phased-in: 1 January 2018 – 1 January 2019
December 2016	June 2017	1 January 2019 – 31 December 2019
December 2017	June 2018	1 January 2020 – 31 December 2020
December 2018	June 2019	1 January 2021 – 31 December 2021

The circular likewise imposes capital distribution constraints should a DSIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

Restrictions on Distributions	Level of CET 1 Capital	
	Bucket 1	**Bucket 2**
No distribution (until the minimum CET1, CCB, and more than 50 per cent. of the DSIB HLA requirements are met; and conditions (a) and (c) below are complied with.)	<9.25 per cent.	<9.75 per cent.
50 per cent. of earnings may be distributed (if the minimum CET1, CCB, and more than 50 per cent. of the DSIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>9.25 per cent. – 10.0 per cent.	>9.75 per cent. – 11.0 per cent.

A DSIB will not be subject to any restriction on distribution if the following conditions are met:

(a) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;

(b) Compliance with total required CET1 (under the circular) before distribution;

(c) Compliance with minimum capital ratios after distribution.

DSIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process (**ICAAP**).

These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a DSIB by the BSP.

To align with international standards, the BSP has adopted the BCBS's eligibility criteria to determine the eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 Capital and Tier 2 Capital with the issuance of BSP Circular No. 709 effective 1 January 2011.

On 15 January 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10 per cent. on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0 per cent. and 7.5 per cent., respectively. A capital conversion buffer of 2.5 per cent. comprised of CET1 capital, shall also apply.

On 15 February 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Through this, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks: (i) subjecting investors to a client suitability test, (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that the abovementioned requirements apply in relation to all prospective investors.

On 5 March 2013, the BSP released Memorandum No. M-2013-008, which contained a list of Frequently Asked Questions on the Basel III Implementing Guidelines. The new capital requirements, required loss absorbency features and risk disclosure requirements for prospective investors are addressed in such memorandum.

Memorandum No. M-2013-008 clarified, among others, that the BSP is fundamentally aligned with the Basel Committee's proposals, but there are facets which the BSP has set the prudential bar higher either by design or by reason that these are the de facto practice existing already in the Philippines.

Further, the BSP explained in Memorandum No. M-2013-008 that loss absorbency measures ensure that capital instruments are in a position to fully absorb losses before any public sector funds are injected and taxpayers are exposed to losses. This effectively means that debt instruments qualifying as regulatory capital are required to be treated as similar to equity with respect to absorbing losses from operations.

In December 2010, the BCBS released "Basel III: Global Regulatory Framework for More Resilient Banks and Banking Systems", which was later revised in June 2011. In December 2010, the BCBS released "Basel III: International Framework for Liquidity Risk Measurement Standards and Monitoring", which was later revised in January 2013. Pursuant to these frameworks, the BCBS affirmed the implementation of the following to supplement banks' higher minimum capital requirements and new capital buffers: leverage ratio, the supervisory monitoring for which shall be from 2011 to 2012, followed by a parallel run from 2013 to 2017 with disclosure commencing on 1 January 2015 and migration to Pillar 1 by 2018; liquidity coverage ratio, the observation period for which starts in 2011 and implementation in 2015; and the net stable funding ratio, the observation period for which starts in 2012 and implementation targeted by 2018.

Moreover, the BSP adopted the Basel III leverage ratio framework under BSP Circular No. 881 (2015). The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5 per cent. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5 per cent. minimum but covered institutions are required to submit periodic reports.

Banks also face new liquidity requirements under Basel III's new liquidity framework, namely, the liquidity coverage ratio (**LCR**) and the net stable funding ratio (**NSFR**). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 per cent. which will then be increased to 100 per cent. beginning 1 January 2019.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. The BSP adopted Basel III's LCR under BSP Circular No. 905 (2016), which initially covers universal and commercial banks, and prescribed: (i) that under a normal situation, the value of the liquidity ratio shall be no lower than 100 per cent. on a daily basis and (ii) an observation period from 1 July 2016 to the end of 2017, during which period the banks are required to submit quarterly reports to the BSP.

There can be no assurance that the Bank will not face increased pressure on its capital in the future to comply with Basel III standards which may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is effectively controlled by one shareholder group, with which it has extensive financial and business connections and the interests of the majority shareholder may not coincide with the interests of the Holders

The Bank is effectively controlled by a group of companies held by the Yuchengco family. As of 30 September 2017, the Pan Malayan Management and Investment Corporation (**PMMIC**) and affiliates of the Yuchengco Group of Companies (**YGC**) owned approximately 52.1 per cent. of the Bank's issued and outstanding shares. There can be no assurance that the interests of YGC will necessarily coincide with the interests of the Holders.

In addition, the Bank's loans to YGC amounted to approximately 1.1 per cent. of the Bank's total loan portfolio as of 30 September 2017. YGC has been the Bank's controlling shareholder for over 40 years and is closely associated with the Bank. If there is any public perception in the Philippines that the Bank is reliant on the financial condition of YGC, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of YGC. In particular, this could result in withdrawals of deposits or a decrease in new deposits beyond levels anticipated by the Bank and have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank relies on its relationship with YGC for certain business synergies, including access to YGC clients and prospective clients and joint product development. As a result, deterioration in the financial condition of YGC or negative publicity regarding YGC or any other entities owned or controlled by YGC could have a material adverse effect on the Bank's financial condition and results of operations.

Losses in the Bank's subsidiaries' operations may affect the financial standing of the Bank

As a universal bank, the Bank is authorised, subject to certain limits, to invest in allied and non-allied undertakings and joint ventures such as RCBC Capital Corporation (**RCBC Capital**) and Honda Cars Phils., Inc.

A portion of the Bank's earnings may be derived from the dividends from these operating companies or may be otherwise affected by the financial performance of its subsidiaries. For the year ended 31 December 2016 and the nine months ended 30 September 2017, the Bank had derived equity income of ₱1,499.5 million and ₱1,475.4 million (U.S.$29.0 million), respectively, from these operating companies. Losses in these undertakings may affect the financial standing of the Bank and could have a material adverse effect on the Bank's financial condition.

Furthermore, certain financial institutions owned or controlled by the Bank are also subject to BSP audit, the results of which may affect the banking licence of these subsidiaries, and consequently affect the cashflow to the Bank in terms of dividends.

The Bank is subject to foreign currency risk on its foreign currency liabilities

The foreign exchange transactions of banks in the Philippines are subject to stringent BSP regulation. Under BSP guidelines, the Bank is required to provide a 100 per cent. foreign asset cover for all its foreign currency liabilities in its foreign currency deposit unit (**FCDU**) books, except for U.S. dollar-denominated repurchase agreements with the BSP. As of 30 September 2017, on a non-consolidated basis, the Bank had ₱418,874.2 million (U.S.$8,242.3 million) of resources and ₱353,946.2 million (U.S.$6,965.4 million) of liabilities (of which ₱119,080.5 million (U.S.$2,343.4 million) of resources and ₱118,319.8 million (U.S.$2,328.4 million) of liabilities were in its FCDU books and denominated in foreign currencies, primarily in U.S. dollars). The decline in the value of the Peso vis-à-vis foreign currencies may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and increase the amount of NPLs. However, of the ₱119,080.5 million of resources in the Bank's FCDU books as of 30 September 2017, ₱57,467.9 million (U.S.$1,130.9 million) comprised of loans to corporate customers of the Bank and the remainder was exposure to Philippine sovereign risk. There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Bank.

The Bank may not be able to successfully upgrade its information and reporting systems in a cost effective and timely manner to respond to technological advances and changing banking industry standards

Effective information and reporting systems are critical to the Bank's operations. Among other things, the Bank relies on timely access to reliable information in order to provide services to its customers and prudently manage its assets and liabilities, liquidity and overall financial condition. In addition, the Bank's ability to manage credit risk, market risk, interest rate risk and operational risk also depends on access to such information.

There can be no assurance that the Bank will be able to respond to technological advances and changing banking industry standards and practices on a cost-effective and timely basis. If the Bank's systems quickly become outdated or the Bank's employees are not adequately trained in how to operate and comply with system upgrades, the Bank's financial condition, liquidity and results of operations could be materially and adversely affected.

Significant security breaches in the Bank's computer systems and network infrastructure, fraud, systems failures and calamities could adversely impact its business

The Bank's computer systems, software and networks may be vulnerable to unauthorised access, computer viruses or other malicious code and other events that could have a security impact. The Bank's hardware and software are also subject to damage or incapacitation by human error, natural disasters, power loss, sabotage, computer viruses and similar events or the loss of support services from third parties such as internet backbone providers. A significant failure in security measures could have an adverse effect on the Bank's business and its reputation could be adversely affected by significant fraud committed by employees, agents, customers or third parties.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by its increased use of networking. The Bank employs security systems, firewalls and password encryption, designed to minimise the risk of security breaches. The Bank may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and the Bank may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Bank.

To mitigate these risks, the Bank continues to implement security technologies and establish operational procedures. However, these may not be sufficient to prevent fraud, break-ins, damage and failures. Given the increasing share of retail products and services and transaction banking services in the Bank's business, the importance of systems technology to its business has increased significantly. The Bank's principal delivery channels include its branches and ATMs and its electronic banking systems.

Any failure in the Bank's systems, particularly those utilised for its retail products and services and transaction banking, or the occurrence of natural disasters that affect areas in which it has a significant presence, could adversely affect its operations.

The Bank's business, reputation and prospects may be adversely affected if it is not able to detect and prevent fraud, procedural lapses or other misconduct on a timely basis.

The Bank is exposed to the risk that fraud, procedural lapses and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events or procedural lapses may damage the reputation of the Bank and may adversely affect its business, financial condition, results of operations and prospects.

The Bank has put in place various processes and structures to detect and prevent fraud, procedural lapses and other misconduct committed by the Bank's employees or outsiders on a timely basis. However, there can be no assurance that these processes and structures will detect and prevent fraud, procedural lapses and other misconduct in a timely manner or at all. For example, in February 2016, four alleged unauthorised fund transfers from the Bank of Bangladesh to four accounts in the Bank occurred. The funds in issue were eventually transferred to various accounts outside of the Bank. In August 2016, the Monetary Board approved the imposition of supervisory enforcement action on the Bank to pay the amount of ₱1.0 billion in relation to the completed special examination conducted by the BSP. The Bank has fully recognised in the Consolidated Statement of Income the ₱1.0 billion supervisory action as part of Miscellaneous Expenses, and paid in full this penalty ahead of the August 2017 deadline set by the BSP. Notwithstanding the BSP action, there may be additional litigation arising from this incident that may be brought by the Bank of Bangladesh or other authorities.

Failure on the part of the Bank to prevent such procedural lapses or any fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities.

The Bank is involved in litigation, which could result in financial losses or harm its business.

The Bank is and may in the future be, implicated in lawsuits on an on-going basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. However, there can be no assurance that (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of the Bank's insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

Risks Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalisation, including liberalisation of foreign ownership regulations. As of September 2017, the commercial banking sector consisted of 21 universal and 22 commercial banks. Of the 21 universal banks, 12 are private domestic banks, three are Government-owned and six are foreign bank branches. Of the 22 commercial banks, five are private domestic banks, two are subsidiaries of foreign banks and 15 are branches of foreign banks. The recent mergers and consolidations in the banking industry, as well as the liberalisation of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other Philippine banks and financial institutions with significant presence in Metro Manila and large countrywide branch networks;
- foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector.

RCBC Savings Bank, the Bank's savings bank subsidiary, faces similar competitive challenges.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. In addition, the Bank faces intense competition in areas it has identified for growth such as consumer loans and remittances. Increased competition may make it difficult for the Bank to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its margins, results of operations and financial condition and inhibit the Bank's ability to implement its growth strategy.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- the dependence of the Philippine economy in general on exports for economic growth. In recent years, however, Philippine economic growth has largely been fuelled by personal consumption spending that accounted for 69 per cent. of Gross Domestic Product (**GDP**);
- the large foreign debt of the Government, relative to the GDP of the Philippines; and
- the greater volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data published by the BSP, average NPL ratios (including interbank loans) in the Philippine banking system were 2.31 per cent., 2.09 per cent. and 1.89 per cent. as of the years ended 31 December 2014, 2015 and 2016 respectively. As of 30 November 2017, average gross NPL ratio (including interbank loans) in the Philippine banking system was 1.9 per cent.

Philippine banks may experience limited liquidity due principally to a material asset- liability maturity mismatch

As with other Philippine banks, most of the Bank's funding requirements are met through short-term and medium-term funding sources, primarily in the form of time deposits, savings accounts and current accounts. Most of the Bank's time deposits are for periods of one month or less. As with other Philippine banks, many of the Bank's assets, however, have long-term maturities, creating the potential for funding mismatches. Although, historically, the Bank has been able to roll over most of its deposits on maturity, there can be no assurance that the Bank will continue to be able to do so in the future.

Although the Bank has not experienced liquidity problems in the past, there can be no assurance that the Bank will be able to maintain sufficient liquidity to cover customer withdrawals in the future, especially in the event of a future economic crisis. If a substantial number of the Bank's depositors do not roll over deposited funds upon maturity, or decide to withdraw their current account deposits, the Bank's liquidity position would be adversely affected. In particular, the Bank may have to rely on other sources of financing which may not be available at commercially attractive terms or at all. Any failure to obtain adequate funding, or a significant increase in funding costs, would have a material adverse effect on the Bank's liquidity, financial condition and results of operations.

The Bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries

The Bank is exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of the Bank's risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within the Bank may be incomplete or obsolete.

The Bank may also have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

Philippine banks are vulnerable to volatility in interest rates

Like most financial institutions, Philippine banks realise income from the margin, or "spread", between interest-earning assets, such as investments and loans, and interest paid on interest- bearing liabilities, such as deposits and borrowings. The business of Philippine banks, including the Bank, is subject to fluctuations in market interest rates as a result of mismatches in the repricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of Philippine banks such as the Bank.

There is limited independent information on borrowers' credit history in the Philippines

Although the Philippines has a central credit agency, namely the Credit Information Corporation, which keeps information on Philippine borrowers' credit history, including information such as timeliness of loan repayments, the coverage and level of detail of information on Philippine borrowers is still fairly limited when compared to the availability of information in more developed countries. The absence of detailed information makes it difficult for Philippine banks to assess the creditworthiness of loan or credit card applicants, which may result in an increase in NPLs, credit card receivables or provisions for losses.

Enforcement difficulties may prevent lenders from recovering the assessed value of collateral when the Bank's borrowers default on their obligations in the Philippines

Philippine banks may not be able to fully recover collateral or enforce any guarantees due, in part, to the legal uncertainties in enforcing such rights. Although the law provides for expedited procedures for the enforcement of certain types of collateral, in practice, lenders generally end up submitting a petition to a Philippine court or face challenges by borrowers which could result in delays that can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables.

In addition, such collateral may not be insured. In the past, these factors have exposed, and continue to expose lenders in the Philippines, to legal liability while in possession of collateral. The current difficulty of bringing enforcement actions under the Philippine legal system significantly reduces the ability of lenders to realise the value of collateral located in the Philippines and therefore the effectiveness of taking a secured position on loans to Philippine borrowers. In addition, there can be no assurance that lenders will be able to realise the full value, or any value, of any collateral located in the Philippines in a bankruptcy or foreclosure proceeding or otherwise, especially as the value of secured assets such as real property and inventory has been, and may continue to be, negatively affected by the current political, economic and social conditions in the Philippines.

Increased enforcement by the Government of regulations relating to priority lending for agrarian reform and the agricultural sector could adversely affect the Group's business, financial condition and results of operations.

The Government has imposed a lending policy requiring Philippine banks to extend certain loan amounts to the agriculture and fisheries sector and agrarian reform beneficiaries of the country. Failure to meet the specified level of loans may result in penalties being assessed against a non- or under-compliant bank. As of 30 September 2017, the requirement applicable to the Group was ₱13.9 billion (U.S.$273.5 million) for agrarian reform and ₱20.8 billion (U.S.$409.3 million) for other agricultural credit. Because the Group is unable to generate sufficient exposure to agrarian reform and agricultural sector due to its prudent credit and risk management policies, the Group has paid penalties in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non- or under compliance or force banks to lend in accordance with the policy.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

PFRS continues to evolve, and certain newly promulgated standards and interpretations will take effect on 1 January 2018. PFRS 9, Financial Instruments replaced PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The Group early adopted the previous versions of PFRS 9 (2009 and 2010 versions), relating to the classification and measurement of financial assets and financial liabilities with a date of initial application of 1 January 2014. The revised standard, which became effective on 1 January 2018, introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option is not invoked, be subsequently measured at: (a) amortised cost, if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at fair value through other comprehensive income, if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For financial liabilities measured using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the fair value option.

PFRS 9 also introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach in PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

PFRS 9 also replaces the rule-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rule-based hedge effectiveness test with an objective-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

In 2014, the Bank early adopted the 2009, 2010 and 2013 versions of PFRS 9 covering the classification and measurement of financial instruments and provisions of hedge accounting. Accordingly, retrospective adjustments were made by the Bank to reflect the impact of early adoption with effective date of 1 January 2014. The adoption of the full version of PFRS 9 effective 1 January 2018 will have an effect on the classification and measurement of the Bank's eligible debt instruments under Fair Value through other Comprehensive Income (**FVOCI**) and impairment methodology using Expected Credit Loss (**ECL**). As of 31 December 2017, the Bank has already developed its business model for FVOCI and its loan loss methodology under ECL.

PFRS 16, Leases replaces the accounting requirements for leases under the old standard (IAS 17, Leases). The new standard requires all leases to be reported on the balance sheet as assets and liabilities. PFRS 16 will take effect on 1 January 2019. The Bank is currently assessing the impact of the adoption of PFRS 16 which will result in the recognition of intangible asset representing the Group's right-of-use assets on its lease arrangements.

Any future changes in Philippine taxation may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition and results of operations could be materially affected. The present administration has recently enacted a comprehensive tax reform package, the first tranche of which is expected to be implemented early this year.

If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas of the world. These on-going global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the trading price of the Notes.

In 2015, the effect of the devaluation of the Renminbi by the PRC, coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso) in 2016 resulted in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the United Kingdom on 23 June 2016, where the United Kingdom public voted by a majority in favour of the British government taking the necessary action for the United Kingdom to leave the European Union. If the United Kingdom or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

The broad ramifications of "Brexit" to the United Kingdom, the European Union and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronisation in policy environment persist, with the U.S. continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the on-going geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS.

The results of the recently held U.S. Presidential elections shocked global markets, significantly affecting stock and futures indices and currencies globally, on and shortly after election day. Moreover, the election of Donald J. Trump as the U.S. President has been believed by certain economists as creating uncertainties in the direction of the U.S. economy and U.S. trade policies, which could adversely affect the global market.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. These developments may adversely affect trade volumes with potentially negative effects on the Philippines. The success of the Bank's business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services.

Risks Relating to the Philippines

Substantially all of the Bank's operations and assets are based in the Philippines and therefore any downturn in general economic conditions in the Philippines could have a material adverse impact on the Bank

Substantially all of the Bank's business operations and assets are based in the Philippines. As a result, the Bank's income, results of operations and the quality and growth of its assets depend, to a large extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine currency and the imposition of exchange controls.

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the Peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency sovereign rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. In particular, the significant depreciation of the Peso made it difficult for many Philippine companies with Peso revenue streams and significant U.S. dollar or other foreign currency denominated loans or costs to meet their repayment obligations. While the Philippine economy registered positive economic growth in the period from 1999 to 2001 as it recovered from the Asian economic crisis, it continues to face a significant budget deficit, limited foreign currency reserves, a volatile Peso exchange rate and a relatively weak banking sector.

For the year ended 31 December 2016, the fiscal deficit of the Philippines was ₱353 billion, equal to 2.4 per cent. of the GDP for that period, according to the Philippine Bureau of Treasury. This was lower than the projected fiscal deficit of ₱482.1 billion for 2017, equal to 3.0 per cent. of the GDP of the Philippines in 2016, due largely to improved revenue collections and lower public expenditures. For the year ended 31 December 2014, the fiscal deficit fell to ₱73.1 billion or 0.6 per cent. of GDP. For the year ended 31 December 2015, the fiscal deficit was ₱121.7 billion. There can be no assurance that the budget deficit will not increase, that measures will be taken to reduce the current deficit or that, if taken, such measures will be successful.

The global credit markets have experienced, and may continue to experience, significant dislocation and turbulence which originated from the liquidity disruptions in the U.S. credit and sub-prime residential mortgage markets since the second half of 2007. Sub-prime mortgage loans in the United States have experienced increased rates of delinquencies, foreclosures and losses. These and other related events, such as the collapse of a number of financial institutions and the European Sovereign debt crisis, have had and continue to have a significant impact on the global capital markets associated not only with asset-backed securities but also with the global credit and financial markets as a whole. The deterioration in the financial markets has led to the continued slowdown in the economies of the United States, the European Union, some Asian economies and elsewhere. This may lead to significant declines in employment rates, household wealth, consumer demand and lending which, as a result, may adversely affect economic growth in the Philippines. In addition, the occurrence of accelerated inflation or deflation and increasing oil prices may affect global market conditions. While the U.S., China and various European governments have launched various fiscal stimulus and rescue packages aimed at restoring liquidity, there can be no assurances that these will result in financial stability. The economic downturn has had widespread global effects and there can be no assurance that such financial instability can be limited or that economic activity will not contract worldwide.

These foregoing developments and a slowdown or recession in the U.S. and or other large economies may adversely affect the Philippine economy.

Other factors that may adversely affect the Philippine economy include:

- reduced business, industrial, manufacturing or financial activity in the Philippines or elsewhere in Southeast Asia;
- scarcity of credit or other financing available to the Government, corporations or individuals in the Philippines;
- fluctuations in currency exchange rates and interest rates or prolonged periods of inflation or deflation;
- a downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- significant changes to the Government’s economic, social or tax policies;
- natural disasters, including tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, political or economic developments in or affecting the Philippines.

Any deterioration in economic conditions in the Philippines as a result of these or other factors, including a significant depreciation of the Peso or increase in interest rates, could materially adversely affect the Bank’s borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank’s financial condition and results of operations, including the Bank’s ability to grow its asset portfolio, the quality of the Bank’s assets and its ability to implement the Bank’s business strategy.

Credit ratings of the Philippines and Philippine companies could materially and adversely affect the Bank and the market or price of the Securities

In 2014, international credit rating agencies Standard & Poor's (**S&P**) and Moody's Investors Service (**Moody's**) upgraded their credit ratings for the Philippines to "BBB" and "Baa2", respectively. Both agencies affirmed these ratings in 2017. In December 2017, Fitch Ratings upgraded its credit rating for the Philippines to BBB. All ratings are a notch above investment grade and the highest that the Philippines has received so far from any credit ratings agency.

With investment grade status from three credit rating agencies, the Philippines is now eligible to be part of investment grade indices. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. The ratings of the Government directly affect companies resident in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign.

No assurance can be given that international credit rating organisations will not downgrade the credit ratings of the Philippines or Philippine companies. Any such downgrade could have an adverse impact on liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available and could have a material adverse effect on the Bank.

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's business

During the last decade, the Philippine economy has from time to time experienced devaluation of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. From 30 June 1997 to 31 December 2003, the Peso experienced periods of significant depreciation and declined from ₱29.0 = U.S.$1.0 (average) in July 1997 to ₱56.3 = U.S.$1.0 as of 31 December 2004. However, the Peso in recent years has further strengthened versus the U.S. dollar on the back of positive investor sentiment and increased dollar flows both from foreign investors and overseas Filipino workers (OFWs). From its end-December 2004 level, the Peso appreciated to ₱44.104 = U.S.$1.0 (average) by 31 December 2013. This was in contrast to the ₱41.0 = U.S.$1.0 (average) exchange rate as of 31 December 2012.

Nevertheless, like all emerging markets, the Philippines is not immune to volatilities in the global financial and capital markets and changing investor risk appetites that could trigger capital outflows and put pressure on the Peso. Given this, a decline in the value of the Peso as regards foreign currencies may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and increase NPLs. There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Bank.

Under BSP guidelines, the Bank is required to match FCDU liabilities with foreign currency assets in its FCDU books. As of 30 September 2017, on a non-consolidated basis, the Bank had ₱418,874.2 million (U.S.$8,242.3 million) of resources and ₱353,946.2 million (U.S.$6,965.4 million) of liabilities (of which ₱119,080.5 million (U.S.$2,343.4 million) of resources and ₱118,319.8 million (U.S.$2,328.4 million) liabilities were in its FCDU books). The Bank has entered into foreign exchange forward contracts as a means of hedging against foreign currency fluctuations. More importantly, it is the Bank's policy to extend foreign exchange loans only to entities with natural or regulatory hedge (exporters or those with foreign exchange adjustment mechanisms like utilities). However, there can be no assurance that the Bank will be able to successfully hedge its exposure to foreign currency risks.

In early 2007, the BSP liberalised its foreign exchange policies pertaining to current account and capital account transactions as well as to prudential regulations. On the latter, the BSP has imposed a symmetrical limit of 20 per cent. of unimpaired capital with an absolute limit of U.S.$50 million on both the overbought and oversold positions of banks. In particular, the oversold limit at 20 per cent. of unimpaired capital serves as a prudential measure to discourage excessive exposure of banks to foreign exchange risks. However, the BSP's liberalisation of its foreign exchange policies has its downside. While it encourages freer dollar inflows, in the same manner it opens up the country to a greater magnitude of capital flight at the first sign of market volatility.

On-going volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants

The on-going volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Political instability in the Philippines could destabilise the country and may have a negative effect on the Bank's businesses.

The Philippines has from time to time experienced political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests.

On 27 March 2014, the Government and the Moro Islamic Liberation Front (**MILF**) signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On 10 September 2014, the draft of the Bangsamoro Basic Law (**BBL**) was submitted by then President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL. The Board of Inquiry on the Mamasapano incident and the Senate released their reports on the Mamasapano incident. On 27 March 2015, former President Aquino named a Peace Council consisting of five original members to study the draft BBL. 17 co-convenors were later named as part of the Peace Council. The Peace Council examined the draft law and its constitutionality and social impact. The Peace Council Members testified before the House of Representatives and the Senate, and submitted their report, which endorses the draft BBL but with some proposed amendments. On the 13th and 14th of May 2015, the Senate conducted public hearings on the BBL in Zamboanga and Jolo, Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity. On 6 June 2017, the Bangsamoro Transition Commission approved the final draft of the BBL. The final draft was submitted to President Rodrigo Duterte in the presence of Congress on 17 July 2017. On 20 September 2017, President Duterte gave verbal commitments to certify as urgent the BBL in order to facilitate the immediate passage of the bill. On 1 February 2018, President Duterte gave further verbal commitments to have the BBL passed before any charter change to the Constitution, and the administration remains to expect the passage of the bill by March 2018.

The Philippine Presidential elections were held on 9 May 2016, and on 30 June 2016, President Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending, and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

On 28 April 2014, the Philippines and U.S. officials signed the Enhanced Defence Cooperation Agreement (**EDCA**) shortly before the visit to the Philippines of former United States President Barack Obama. This agreement was intended to foster the implementation of the Philippines and U.S. Mutual Defence Treaty and to allow a greater U.S. military presence in the Philippines. Activists criticised the move and held protests and some lawmakers argued that there was a lack of transparency in the preparation and signing of the agreement.

President Duterte has spoken publicly about the potential of the Philippines ending certain mutual defence treaties and agreements with the United States, including the Enhanced Defence Cooperation Agreement (**EDCA**); however, no formal plans have been announced. In a written statement published on 6 September 2016, the Department of Foreign Affairs affirmed that President Duterte continues to value the alliance with the United States, noting that both countries share common goals in their pursuit of the war against drugs, terrorists, crime and poverty.

There can be no assurance that the current administration will continue to implement social and economic policies favoured by the previous administration. Major deviation from the policies of the previous administration or fundamental change of direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Bank's businesses, prospects, financial condition and results of operations.

Acts of terrorism could destabilise the country and could have a material adverse effect on the Bank's businesses, financial condition and results of operation.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organisation, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. After almost a year in captivity, Sekkingstad and Flor were finally released. In September 2016, the Abu Sayaff abducted Jurgen Gustav Kantner and killed his wife while the couple were sailing off the waters of the southern Philippines. Recently, Kantner was beheaded in February 2017, after ransom demands were not allegedly met. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilise the Philippines and adversely affect the country's economy.

The Government and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters and the MILF, which led to the deaths of 44 members of the Special Action Force of the Philippine National Police, 18 from the MILF, five from the Bangsamoro Islamic Freedom Fighters, and several civilians, including Zulkifli

Abdhir, a Malaysian national included in the U.S. Federal Bureau of Investigation's most wanted terrorists.

On 2 September 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organisation and/or their allies are responsible for the bombing.

On 23 May 2017, a terrorist group led by the Maute group, which pledged allegiance to the Islamic State of Iraq and the Levant, captured parts of Marawi City in Lanao del Sur to allegedly establish an Islamic State caliphate in Mindanao. In response, President Duterte issued Proclamation No. 216 declaring martial law and suspended the privilege of writ of habeas corpus in Mindanao, allowing warrantless arrests for those connected with the crisis. The Congress has granted the request of President Duterte to extend martial law in Mindanao until 31 December 2017. On 17 October 2017, President Duterte declared the liberation of Marawi City from terrorists and the beginning of the rehabilitation of Marawi City. As of 30 October 2017, more than 1,000 people including at least 165 soldiers, 919 Maute group fighters, and 47 civilians have been killed since fighting broke out. Currently, several fund raising activities are being held by local government units to help rebuild Marawi City as well as aid families of the soldiers and policemen who were killed in the campaign to retake Marawi City from the terrorists.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilise parts of the country and adversely affect the country's economy. An increase in the frequency, severity, or geographic reach of terrorist acts could adversely affect the country's economy. Any such destabilisation could cause interruption to parts of the Bank's businesses and materially and adversely affect its financial conditions, results of operations and prospects.

The push for charter change has been causing political unrest which could adversely affect the Bank's financial condition, results of operations and cash flows

Despite constitutional reform being a divisive issue in the Philippines, the Duterte administration has considered it a legislative priority to amend the Philippine Constitution (**Charter Change**) primarily to change the form of Philippine government from a unitary one to a federal one. The shift to a federal form of government was among President Duterte's key promises during his election campaign in 2016. President Duterte believes that the shift would promote peace most especially in conflict-torn Mindanao, curb poverty nationwide, and empower local government units in the Philippines.

The House of Representatives has already taken the initial steps toward the establishment of a Philippine federal structure of government. On 16 January 2018, the House of Representatives passed Joint Resolution No. 9, proposing that both the Senate and the House of Representatives transform into a Constitutional Assembly with the authority to amend the Constitution. On 17 January 2018, the subcommittee on constitutional amendments of the House of Representatives presented its proposed amendments to political provisions of the current Constitution, including the establishment of a Federal Republic divided into five states: Luzon, Metro Manila, Visayas, Bangsamoro, and Mindanao. Each state, under the said proposal, would have a unicameral state assembly with legislative powers, and a premiere with executive powers. The subcommittee likewise proposed to establish a parliament with a 300-member Federal Assembly as national legislative department and a Senate as the regional legislative body. Meanwhile, the President would remain as head of state under the proposal, and would have a term of five years with one re-election, whereas a Prime Minister would be constituted as the head of the Philippine government, and would be elected by members of the Philippine parliament.

With respect to proposed amendments to economic provisions of the current Constitution, the House of Representatives subcommittee also proposed to delete certain provisions in the current Constitution providing foreign nationality restrictions, particularly in the following areas: exploitation, development and utilisation of natural resources, ownership of alienable lands, franchise on public utilities, practice of profession, ownership of educational institutions, mass media and advertising.

Business groups in the Philippines believe that such amendments will enable the Government to achieve its goal of sustainable and inclusive economic growth, and that an increase in foreign investments would create more job opportunities for Filipinos.

The Speaker of the House of Representatives has posited that the House of Representatives alone may proceed to amend the Constitution even without the concurrence of the Senate, but senators insist that the lower house of Congress must wait for Senate concurrence to formally begin proposing amendments to the Constitution. The impasse between the two chambers has resulted to a crisis of government administration, causing conflicts among different political groups. In addition, while President Duterte has stated that he wishes to step down from office at the end of his six-year term in 2022, critics believe that Charter Change would pave the way for Duterte to perpetuate his political power and begin an authoritarian regime over the archipelago.

Due to the Bank's businesses being subject to extensive regulation from the Government and also dependent upon economic stability, the potential for instability and unrest may have a material adverse effect on the Bank and its financial condition, results of operations and prospects.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

While a principal objective of the Philippine securities laws and the listing rules of the Philippine Stock Exchange (**PSE**) is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20 per cent. of the board of directors of the Bank (the **Board of Directors**), whichever is the lower number. The Bank usually has two independent directors. Many other jurisdictions require significantly more independent directors.

Financial statements of Philippine banks are prepared in accordance with PFRS for Banks which requires the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain statement of condition and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; and realisation of deferred income tax assets among others.

The Bank faces risks related to public health epidemics in the Philippines

The outbreak of an infectious disease in the Philippines, Asia or elsewhere, together with any resulting restriction on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could therefore materially and adversely affect the Bank's business, financial condition and results of operations.

The occurrence of natural catastrophes could adversely affect the Bank's business, financial condition or results of operations

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Group's operations. These factors, which are not within the Group's control, could potentially have significant effects on the Group's branches and operations. During typhoons Chedeng in 2015, Karen and Lawin in October 2016 and typhoon Maring in September 2017, some of the Group's branches were temporarily closed as the surrounding areas were flooded. Monsoon rains as well as earthquakes (Bohol in 2014) may have similar effects. Several earthquake events have brought damages to building structures of branches in South Luzon and Eastern Visayas and some parts in Metro Manila. The highest magnitude earthquake recorded at 6.5 in July 2017 have caused disruption in branch operations due to prolonged power interruption and unavailability of Telco services. Transportation strikes in September 2017, although had minimal impact to operations, still posed threats to continuity of the business. The NCCC mall fire in December 2017 in Davao necessitated the branch to relocate to its buddy branch in order to continue client services and operation. While the Group carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Group believes are in line with general industry practices in the Philippines, there are losses for which the Group cannot obtain insurance at a reasonable cost or at all. In addition, the Group carries business interruption insurance. However, should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Group's business, financial position and results of operations.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognised principles of international law consistent with the United Nations Convention on the Law of the Sea. The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under the United Nations Convention on the Law of the Sea. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favour of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85 per cent. of the South China Sea, including 80 per cent. of the Philippines exclusive economic zone in the West Philippine Sea. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and results of operations.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes could materially and adversely affect the Bank's business, financial condition and results of operations.

Risks relating to the Notes

There has been no prior public market for the Notes

There is no existing market for the Notes. The Sole Arranger has made no commitment and has no obligation to make a market in the Notes. Any such market-making if commenced may be discontinued at any time at the sole discretion of the Sole Arranger. Approval-in-principle has been granted by the SGX-ST to list the Notes, however, no assurance can be given that the listing will be obtained, or if it is, that the listing will continue in the future. No assurance can be given that an active trading market for the Notes will develop or be sustained and therefore, the liquidity of the Notes may be considerably less than for comparable emerging market securities.

If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rates, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Rating of the Notes is not a recommendation to buy, sell or hold securities

The Programme has been rated. One or more independent credit rating agencies may assign credit ratings to an issue of Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, revised or withdrawn by the rating agency at any time.

Noteholders may face difficulties enforcing judgments against the Bank

The Bank is organised under the laws of the Philippines. A substantial portion of the Bank's assets are located in the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the

Bank outside of the Philippines in any actions pertaining to the Notes. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines.

As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgments obtained against the Bank in any foreign court may be recognised and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud; (ii) the foreign court rendering such judgment did not have jurisdiction; (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines; (iv) the Bank did not have notice of the proceedings before the foreign court; or (v) such judgment was based upon a clear mistake of law or fact.

The priority of debt evidenced by a public instrument

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorised to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. So far as the Bank is aware, none of its debt is evidenced by a public instrument and the Bank will undertake in the Terms and Conditions of the Bonds and the Trust Deed not to create or permit to subsist any preference or priority in respect of any Relevant Indebtedness (as defined in Condition 4.2(a)) pursuant to Article 2244(14). However, a domestic lender may acknowledge debt before a notary or a person authorised to administer oaths without notice to the Bank. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of the Bank.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority, during a foreign exchange crisis or in times of national emergency, to suspend temporarily or restrict sales of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee. The Bank is not aware of any pending proposals by the Government regarding such restrictions. Although the Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange, there can be no assurance that the Government will maintain such policy or will not impose economic or regulatory controls that may restrict free access to foreign currency. Any such restriction imposed in the future could adversely affect the ability of investors to repatriate foreign currency upon sale of the Notes or receipt of any dividends.

Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Notes

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the Philippines. For example, the recent economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Notes.

Investors shall pay attention to any modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Risks related to the structure of a particular issue of Notes

Notes subject to optional redemption

An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on its Notes.

Future discontinuance of LIBOR may adversely affect the value of Floating Rate Notes which reference LIBOR.

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forward. This may cause LIBOR to perform differently than it did in the past and may have other consequences that cannot be predicted.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Notes. Depending on the manner in which the LIBOR rate is to be determined under the Terms and Conditions, this may in certain circumstances (i) be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Notes which reference LIBOR.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Index Linked Notes and Dual Currency Notes

The Bank may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a **Relevant Factor**). In addition, it may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Partly Paid Notes

The Bank may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

Risks related to the Notes generally

Change of law

The conditions of the Notes are based on English law, in effect as of the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law, or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples: definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Note in bearer form in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (each as defined under "Form of the Notes"). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Bank will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

The secondary market generally

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be suspended, revised or withdrawn by its assigning rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it; (2) Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Risks Relating To This Offering Circular

Risks relating to unaudited, reviewed interim financial statements deemed incorporated by reference

Any published unaudited, reviewed interim financial statements of the Bank (whether prepared on a consolidated or a non-consolidated basis) which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited by the auditors of the Bank. Accordingly, there can be no assurance that, had an audit been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance on them.

The Bank cannot assure you of the accuracy or comparability of facts, forecasts and statistics contained in this Offering Circular with respect to the Philippines, its economy or the Philippines and global banking industries

Facts, forecasts and statistics in this Offering Circular relating to the Philippines, the Philippine economy and the Philippines and global banking industries, including the Bank's market share information, are derived from various governmental sources which are generally believed to be reliable. However, the Bank cannot guarantee the quality and reliability of such material. In addition, these facts, forecasts and statistics have not been independently verified by the Bank and may not be consistent with information available from other sources, and may not be complete or up to date. The Bank has taken reasonable care in reproducing or extracting the information from such sources. However, because of potentially flawed methodologies, discrepancies in market practice and other problems, these facts, forecasts and other statistics may be inaccurate or may not be comparable from period to period or to facts, forecasts or statistics of other economies.

Risks relating to forward-looking statements

The Bank has included certain statements in this Offering Circular which constitute "forward- looking statements" (the meaning of which is discussed above under "*Cautionary Statement Regarding Forward-Looking Statements*"). Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with the Bank's expectations with respect to, but not limited to, its ability to successfully implement its strategy, its ability to integrate recent or future mergers or acquisitions into its operations, future levels of non-performing assets and restructured assets, its growth and expansion, the adequacy of its provision for credit and investment losses, technological changes, investment income, its ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings it is or becomes a party to, the future impact of new accounting standards, its ability to pay dividends, its ability to roll over its short-term funding sources, its exposure to operational, market, credit, interest rate and currency risks and the market acceptance of and demand for Internet banking services. Accordingly, undue reliance must not be placed on such forward-looking statements.

CAPITALISATION AND INDEBTEDNESS OF THE BANK

The following table sets out (i) the audited consolidated capitalisation and indebtedness of the Bank as of 31 December 2016 and (ii) the unaudited consolidated capitalisation and indebtedness of the Bank as of 30 September 2017. This table should be read in conjunction with the Bank's consolidated financial statements included elsewhere herein. The translation of Peso amounts into U.S. dollars at the specified rates herein is provided solely for convenience.

	As of 31 December 2016 (audited)		As of 30 September 2017 (unaudited)	
	(₱ million)	(U.S.$ million)(1)	(₱ million)	(U.S.$ million)(1)
	(actual)		(actual)	
Indebtedness				
Short-term liabilities				
Deposit liabilities	342,554	6,880	357,926	7,044
Interbank loans, bills payable and other liabilities	37,643	756	28,979	570
Total short-term liabilities	380,197	7,636	386,905	7,614
Long-term liabilities				
Deposit liabilities	10,523	211	16,648	328
Interbank loans, bills payable and other liabilities	41,595	835	28,552	562
Subordinated notes	9,952	200	9,965	196
Total long-term liabilities	62,070	1,246	55,165	1,086
Capital funds				
Issued share capital(2)	14,002	281	14,002	276
Capital paid in excess of par value	22,635	455	22,635	445
Retained earnings				
Appropriated	415	8	420	8
Unappropriated	24,531	493	27,161	535
Other equity adjustments	524	11	804	16
Minority interest	26	1	28	1
Total capital funds	62,133	1,249	65,050	1,281
Total capitalisation and indebtedness(3)(4)	**504,400**	**10,131**	**507,120**	**9,981**

Notes:

(1) The exchange rates used are ₱49.79 = U.S.$1.00 as of 31 December 2016 and ₱50.82 = U.S.$1.00 as of 30 September 2017.

(2) As of 30 September 2017, 1,399.9 million shares of common stock were issued and outstanding at ₱10 par value and 278,993 shares of preferred stock were issued and outstanding at ₱10 par value.

(3) As of 30 September 2017, the Bank had total outstanding contingent liabilities of ₱253.4 billion (U.S.$5.0 billion), which includes derivatives, trust department accounts, outstanding guarantees, foreign exchange bought, foreign exchange sold, inward bills for collection and others.

(4) There has been no material change in the capitalisation, indebtedness or contingent liabilities (including guarantees) of the Bank since 30 September 2017.

CAPITAL ADEQUACY RATIOS

Banks in the Philippines are required by current BSP guidelines to maintain a minimum total capital adequacy ratio of at least 10.0 per cent. To implement Basel III standards, the BSP has adopted new categorisations of capital, effective 1 January 2014. Tier 1 Capital comprises CET1 Capital and Additional Going Concern Capital and the subcategories of Tier 2 Capital have been eliminated. The BSP has adopted a minimum CET1 ratio of 6.0 per cent., a minimum Tier 1 ratio of 7.5 per cent. and a capital conservation buffer of 2.5 per cent). See "*Banking Regulation and Supervision*".

The following table sets forth details of capital resources and capital adequacy ratios of the Bank, as of the dates indicated, as reported to the BSP, computed using Basel III standards:

	As of 31 December			As of 30 September
	2014	**2015**	**2016**	**2017**
Tier 1 Capital				
Common Equity Tier (CET 1) Capital				
Paid-up share capital	28,904	36,634	36,634	36,634
Surplus	13,928	16,798	20,981	24,013
Undivided profits	4,332	5,117	3,864	3,364
Net unrealised gains or (losses) on AFS securities	1,060	658	2,367	1,987
Cumulative foreign currency translation	274	82	86	87
Others	-	-	(1,342)	(1,226)
Minority interest in subsidiary banks	24	29	31	32
Subtotal	**48,522**	**59,318**	**62,621**	**64,891**
Less: Regulatory Adjustments to CET 1 Capital				
Total outstanding unsecured DOSRI	(348)	(412)	-	(1)
Deferred tax assets	(84)	(1,104)	(2,137)	(2,096)
Goodwill	(158)	(158)	(158)	(158)
Other intangible assets	(879)	(1,958)	(1,965)	(2,028)
Defined benefit pension fund assets	(231)	(1)	-	-
Minority investments in subsidiary banks, quasi-banks and other financial allied undertakings	(17)	-	-	-
Other equity investments	(6,720)	(6,898)	(8,512)	(8,410)
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any	-	(8)	(8)	(5)
Total CET 1 Capital	**40,084**	**48,779**	**49,842**	**52,193**
Additional Tier 1 (AT1) Capital				
Paid-up share capital	3	3	3	3
Total Tier 1 Capital	**40,087**	**48,782**	**49,845**	**52,196**
Tier 2 Capital				
Subordinated Debt	9,921	9,936	9,952	9,964
General Loan Loss Provision	2,084	2,389	2,670	2,968
Total Tier 2 Capital	**12,005**	**12,325**	**12,622**	**12,932**
Total Qualifying Capital	**52,092**	**61,107**	**62,467**	**65,128**

The following table sets forth the Bank's consolidated assets according to risk weight as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(₱ millions)			
Risk-weighted on-balance sheet assets				
20 per cent.	745	783	1,065	610
50 per cent.	33,920	31,321	27,195	26,153
75 per cent.	6,447	6,245	7,137	7,948
100 per cent.	231,634	289,795	290,026	315,238
150 per cent.	9,099	8,603	9,104	10,836
Total risk-weighted on-balance sheet assets	**281,845**	**336,747**	**334,527**	**360,785**
Risk-weighted off-balance sheet exposures	10,565	9,444	9,261	12,337
Total risk-weighted interest rate and exchange rate related contingencies/Others	431	766	1,308	1,396
Market and operational risk-weighted assets	46,108	41,848	41,567	45,272
Total risk-weighted assets	**338,949**	**388,804**	**386,663**	**419,790**

DESCRIPTION OF THE BANK

Overview

The Bank is a prominent universal bank in the Philippines which provides a wide range of banking and financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. As of 30 September 2017, the Bank was the eighth largest private domestic commercial bank in the Philippines in terms of total assets, based on the published statements of financial position. In terms of branches, the Bank ranked sixth in the Philippines, with a country-wide total of 468 branches as of 30 September 2017, including 35 extension offices.

As of 30 September 2017, the Bank's unaudited consolidated total resources and equity amounted to ₱524.4 billion (U.S.$10.3 billion) and ₱65.0 billion (U.S.$1.3 billion), respectively. The Bank's unaudited consolidated pre-tax profit and net profit for the year ended 30 September 2017 amounted to ₱4.0 billion (U.S.$0.1 billion) and ₱3.4 billion (U.S.$0.1 billion), respectively.

As of 30 September 2017, the Bank had a market capitalisation on the PSE of ₱69.4 billion (U.S.$1.37 billion). The Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.43 per cent. and 15.51 per cent., respectively, as of 30 September 2017.

The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services. The Bank's medium term strategy is to grow its loan portfolio specifically its consumer and SMEs loan portfolios. For the nine months ended 30 September 2017, the Corporate Banking Group (**CBG**), which handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers, was the largest contributor to its net income.

The Bank's Retail Banking Group (**RBG**) provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide ATM network.

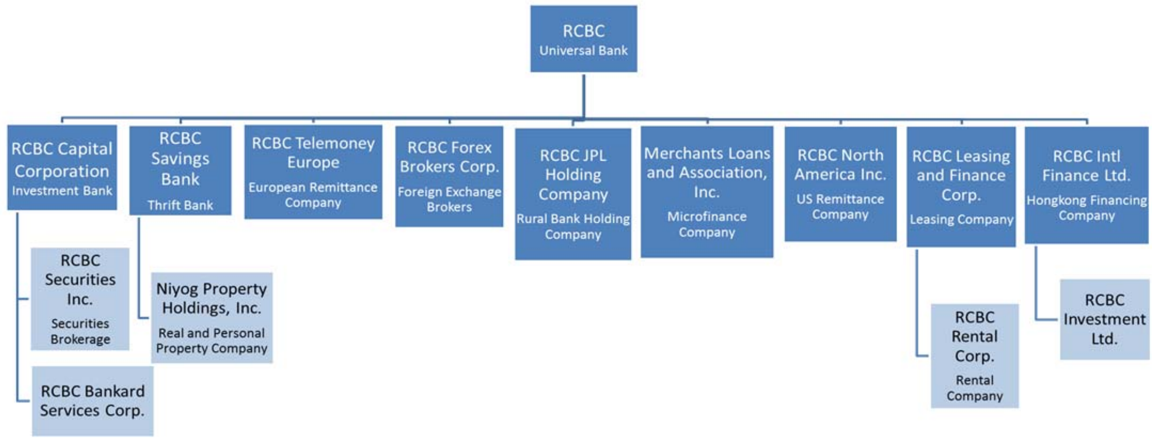
The Bank's CBG focuses on leading Philippine and multinational corporations, Filipino-Chinese businesses, and international corporate clients in special economic zones. Through its current affiliation with the Yuchengco Group of Companies (the **YGC**) and past affiliation with The Bank of Tokyo-Mitsubishi UFJ Limited (**UFJ**), it has established long-standing relationships with Japanese companies in various special economic zones in the country.

The Bank also provides a full range of consumer banking products and services in the Philippines, primarily through its subsidiary, RCBC Savings Bank. The Bank's international operations consist of its wholly-owned subsidiaries, RCBC North America, Inc. and RCBC TeleMoney Europe in the United States and Italy, respectively, and its majority-owned subsidiary RCBC International Finance Limited and its subsidiary, RCBC Investment Ltd., in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by Overseas Filipino Workers (**OFWs**). The Bank estimates it had an approximate 2.81per cent. share of the remittance business in the Philippines as of 30 September 2017, based on remittance volumes published by the Bangko Sentral ng Pilipinas (the **BSP**).

In 2017, the Bank received various awards for its credit card products, including, Highly Commended Best Card Offering-Southeast Asia for its YourCash Loan Feature and Best Card Design featuring its 4wave vector card layout at the 4th Annual Cards & Electronic Payments International Asia Awards 2017, and Best Loyalty and Rewards Program for its Diamond Platinum Mastercard's Diamond Cares Program at The Mastercard Innovation Forum Awards 2017. The Bank also received the Infra Deal of the Year 2016 award from Project Finance International, Best Project Finance Deal of the Year 2016 award from Alpha South East Asia and Investment House Association of the Philippines, Top 5

Corporate Issue Manager/Arranger recognition from the Philippine Dealing and Exchange Corporation, and Best in Private Banking award from AI Global Awards.

The following chart shows the organisation structure of the Group as of 30 September 2017:



Recent Developments

Capital Markets Transactions

On 11 August 2017, the Bank issued ₱2.502 billion worth of fixed rate long term negotiable certificates of deposits (**LTNCD**) which carry a coupon rate of 3.750 per cent. and will mature on 11 February 2023.

History

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1962, the Bank received approval from the BSP to operate as a commercial bank and on 2 January 1963, the Bank began operations under its present name. In 1973, the Bank formed alliances with two foreign banks, Continental Illinois National Bank & Trust Co. (**CONNILL**) and UFJ (then known as Sanwa Bank and following its merger in 2004 with Mitsubishi Tokyo Financial Group, became known as The Bank of Tokyo-Mitsubishi UFJ Limited). The relationship with CONNILL ended in 1985 after CONNILL sold its shareholding in the Bank to UFJ. In December 2006, UFJ disposed of its entire shareholdings in the Bank to the Spinnaker Group.

The Bank obtained its commercial banking licence in 1963 and its universal banking licence in 1989 and has been listed on the PSE since 1986.

The Bank acquired Merchants Bank in mid-2008 in order to expand the Bank's branch network. The acquisition also allowed the Bank to take over Merchants Bank's thrift banking licence which enabled the Bank to commence microfinance deposit taking operations in Mindanao. On 13 February 2009, to further bolster its entry into the microfinance business in the Philippines, the Bank acquired the JP Laurel Rural Bank in Batangas.

In 2009, the Spinnaker Group disposed of its entire stake in the Bank. The shares disposed of by the Spinnaker Group were primarily bought back by the Bank in order to allow the Bank to issue shares to potential strategic investors with a business strategy in line with the Bank's business direction. As of 30 September 2017, PMMIC and affiliates of the YGC owned approximately 52.1 per cent. of the Bank's issued and outstanding shares.

On 9 March 2011, the Bank and the International Finance Corporation (**IFC**) reached an agreement under which IFC acquired an approximately 7.2 per cent. stake in the Bank's common shares, as measured on a post-funding basis, for a total consideration of over ₱2.1 billion. The additional capital raised has supported growth in the Bank's loan book, which in addition to large corporates, targets growth in SMEs, microfinance and consumer finance segments. The incremental capital raised was used to support the future acquisition of small and/or medium-sized banks in the Philippines.

On 12 May 2011, the board of directors of the Bank (the **Board**) approved the proposed acquisition by CVC Capital Partners ("CVC") of approximately 15 per cent. stake in the Bank's share capital through a subscription of new shares and the purchase of existing shares from certain shareholders for a total consideration of approximately ₱5.0 billion. The transaction was approved by the stakeholders of the Bank on 27 July 2011 and finalized on 23 September 2011. The investment by CVC was undertaken by Hexagon Investment B.V. ("Hexagon"), a special purpose vehicle ultimately controlled by CVC. The terms of the investment entitled Hexagon to two seats out of 15 on the Board.

On 28 March 2012, RCBC completed the purchase of 448,528,296 common shares or approximately 97.8 per cent. of the outstanding capital stock in First Malayan Leasing and Finance Corporation (now known as RCBC Leasing and Finance Corporation (**RCBC LFC**)) from PMMIC, House of Investments, Inc. and certain other sellers for =P1.53 per share or a total consideration of =P686.2 million. Approval from the BSP was granted on 16 March 2012. The transaction included an equity infusion of =P163.2 million into RCBC LFC to bolster its capital base. RCBC LFC is a non-bank financial institution with a quasi-banking license granted by the BSP, serving corporate and commercial clients and consumers in the financing industry and its wholly-owned subsidiary, Malayan Rental Corporation (now known as RCBC Rental Corporation), is in the business of renting and leasing equipment and machinery. The acquisition allowed the Bank to be more aggressive in providing finance leases and operating leases to its clients.

On 20 April 2015, Cathay Life Insurance Co., Ltd. (**Cathay Life**) completed its acquisition of a 20 per cent. shareholding in the Bank. Cathay subscribed to 124,242,272 primary common shares and acquired 118,935,590 secondary shares from Hexagon and 36,724,138 secondary shares from IFC, all at the price of ₱64.0 per share. The Bank has a shareholders agreement with PMMIC and Cathay Life.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths:

Sustainable size with an established operating history

The Bank is a prominent universal bank in the Philippines with extensive experience in the financial services sector extending over 50 years. The Bank offers a diversified range of banking and financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. This range of products and services provides the Bank with an extensive asset base.

Leading positions in key segments

Based on the Bank's in-house market survey as of 30 September 2017, the Bank is a market leader in key business segments including investment banking, trusts (where it ranked sixth among private local banks in the Philippines in terms of total trust assets under management), treasury operations and foreign exchange, and trade finance and international banking. In addition, the Bank is an established and well recognised provider of banking services to Filipino-Chinese businesses, foreign investors in the export processing zone areas, as well as Japanese multinationals. The Bank has implemented a number of initiatives in the SME segment and has been actively expanding its presence in the microfinance sector.

Strong group synergies and support

As part of the YGC, the Bank is able to leverage a group-wide sales force to assist it in offering a wide range of products and services provided by other members of YGC, making it a “one-stop” financial centre for its customers. At the Bank’s branches, customers may be referred to other YGC companies where, insurance products and other services are being offered.

Proven and experienced management team

The Bank has an experienced management team with a proven track record for successfully executing business plans and achieving results. On 1 July 2016, the Bank appointed Mr. Gil Buenaventura as President and Chief Executive Officer. Mr. Buenaventura previously headed the Development Bank of the Philippines and the Prudential Bank. He was also the Chairman/Vice Chairman of the LGU Guarantee Corporation, Chairman of Citytrust Securities Corporation, BPI Leasing Corporation, Philippine Savings Bank, and Prudential Investment, Inc. In addition, he was previously a Director of BPI Family Savings Bank and Ayala Plans, Inc., Executive Vice President of Citytrust Banking Corp., and Vice President of Citibank N.A. Manila.

Extensive and strategically located banking infrastructure and network

The Bank and RCBC Savings Bank (**RSB**) have an extensive and strategically located branch network throughout the Philippines. As of 30 September 2017, the Bank, inclusive of RSB and Rizal Microbank (**RMB**), had the sixth largest branch network in the Philippines (excluding Government-owned and foreign banks), with a nationwide network of 468 branches, including 35 extension offices nationwide, supplemented by 1,539 ATMs.

In addition, through its Global Filipino Banking / TeleMoney Segment (**GFB/TeleMoney**), the Bank had an approximate 4.1 per cent. market share in OFW remittances as of 31 October 2017. The Bank is present in more than 20 countries through a number of centres, tie-ups and agents. The Bank offers four different types of remittance services - TeleCredit, TeleRemit, TelePay and TeleDoor2Door with TeleCredit. The Telecredit service credits funds directly to the beneficiary’s bank account from any of the Bank’s or RSB’s branches, or any other local bank. The TeleRemit service provides immediate SMS notification to the beneficiary of an incoming remittance. Remittances can be claimed in cash through any of the Bank’s branches, RSB business centres or accredited payout centres such as a retail store or pawnshop. The Tele-Door 2 Door service delivers cash directly to the beneficiary’s address via courier. The TelePay service allows a remitter to directly pay such utilities, SSS, Pagibig and PhilHealth contributions, loan/housing amortisations and insurance premiums, among others. .

For 2018, the Bank plans to expand globally and open more corridors in the Canada, Europe and Asia Pacific Region. See “*Risk Factors – The Bank may not be successful in implementing new business strategies or penetrating new markets*.”

Use of technology as a differentiator

The Bank intends to use investments in technology to continually improve service to its clients. In 2009, the Bank acquired the Finacle Core Banking Solution from Infosys, to transform its IT landscape from the traditional mainframe legacy system to a more agile, open platform. The new core banking system covers, among others, deposits, loans, customer relationship management, trade finance, payments and fund transfers and cheque processing. The new platform went live in May 2012. The Bank has also developed technologically innovative products such as the MyWallet Card electronic stored value card, which gives customers a convenient and safe way to shop as well as to check their accounts and perform many other transactions domestically and internationally in a single ATM-sized card, and online channels such as the RCBC Online Mobile Banking App and ChatBot. In January 2018, the Bank completed its full migration to Europay Mastercard Visa and has also adopted the remote lock/unlock feature for its debit and prepaid cards in the second half of 2017.

In March 2017, the Bank rolled out "Cash Express", the Philippines' first neighbourhood ATM that enables the bank's customers to do various regular banking transactions at partner merchants that are closer and more convenient to them. This is beneficial for the Bank's customers who live in far flung areas, giving them more flexibility and accessibility when it comes to managing their finances.

Strategies

The Bank aims to continue to grow its core business lines through the execution abilities of its experienced and revitalised management team, deepening relationships in the current markets that it services and expanding to selected new market segments through new and innovative products and an expanded distribution platform that will service the customers' wide range of needs.

The key elements of the Bank's strategy are as follows:

Increase earnings by growing its fee-based income, increasing profitability from existing customers and increasing volumes of low-cost current accounts and savings accounts with a focus on consumer, SMEs, the middle market and the microfinance sector

The Bank will remain focused on growing its corporate lending, consumer lending, middle market business and microfinance business throughout the Philippines. The Bank aims to increase its fee-based income from corporate, consumer and investment banking businesses, trust banking and bancassurance products and by growing its credit card business. The Bank plans to increase deposit volume by growing the customer base through various initiatives across different segments. Specifically, the Bank aims to target 100,000 deposit customers transacting through electronic channels and aggressively target retail depositors by offering ATM-based products. The Bank aims to continue to build up its loan portfolio by actively pursuing opportunities in growth industries and refinancing activities as well as loan syndications in the corporate market. It also intends to capitalise on the various alliances forged with several Japanese and Chinese banks by offering products and services to multinational corporate clients while expanding capabilities with the transfer of technologies and best practices. In addition, strong focus will be given to building a strong consumer franchise inclusive of a large consumer credit portfolio. The Bank intends to increase its relationships in the growing middle market and microfinance market and further improve credit and portfolio quality through improved risk management capabilities. In this respect, the Bank acquired JP Laurel Rural Bank in Batangas and Merchants Bank in Mindanao in order to pursue micro-lending operations. The Bank intends to continue to seek opportunities to acquire other existing financial institutions with the view to expanding its lending base to cover the lower end of consumer lending in the Philippines.

Further expand the Bank's existing branch network while enhancing the effectiveness of the distribution network through the introduction of more electronic channels

The Bank will continue to consider acquisition opportunities, particularly focusing on well managed mid-sized banks and thrift banks which may enable the Bank to increase its resource base and expand its branch network and reach in a cost-efficient manner. In addition, the Bank is emphasising the segregation of functions within branches to allow for greater focus on particular products. In order to coordinate this and to increase its efficiency, the Bank intends to continue developing technologies that will centralise the coordination and selling efforts of its branch network. To improve its distribution network, the Bank plans to significantly increase the number of ATMs and RCBC CashExpress Merchants in the next three to five years. This will be supplemented by the development of new electronic channels that will serve key needs of clients without going to a branch. In addition, the Bank will focus on improving its delivery channels via internet and mobile banking. The Bank believes that the utilisation of more electronic channels will contribute to a reduction of operating costs per customer even as the Bank serves a much larger customer base.

Increase cross-selling to existing customers

The Bank plans to expand its business with existing customers through active cross-selling of an increasingly broader suite of products and services through the Bank's extensive distribution platform.

The Bank continues to train and develop its employees to enable them to focus on maximising revenue through referral of supplementary financial products (life and non-life products) provided by YGC affiliates.

Focus on product development

In order to stay ahead of competitors and attract customers within the age group which is most populous in the Philippines, the Bank intends to focus on product development including enhancing its electronic business solutions to support the customers' requirements by adding more features to the Bank's online banking platform, ATMs, RCBC CashExpress Merchants, TouchQ and mobile app based banking to facilitate more financial transactions and generate more fee revenues. In addition, the Bank intends to strengthen its focus on providing a wider range of services to non-resident Filipinos with the introduction of products particularly tailored and branded to satisfy their requirements. These products and services include consumer loans, deposits, investment services, credit and cash cards, bills payment services, online and phone remittance, and money transfer services. The Bank shall continue to expand its presence where there is a high concentration of non-resident Filipinos.

Manage cost and increase operation efficiency

In addition to increasing revenue and cost management, the Bank also intends to seek ways to reduce its operational costs. One key component of the Bank's cost reduction is to continue implementing steps to accelerate the recovery of its NPAs. The Bank intends to continue the active disposal of NPAs in several ways including (a) intensified measures for collection, foreclosure, restructuring and debt for asset swaps, (b) enhancement of the Bank's property information database, (c) improvement of systematic enforcement of ownership control of assets, (d) introducing measures to ensure the cost effective administration of properties, and (e) clearly defined financial exit strategies for certain groups of assets. As the Bank invests in new technology systems, operations and procedures are expected to be streamlined. The support that these systems will provide should increase the capacity of the Bank to process more transactions in less time and with less cost per transaction given the higher volumes.

Attract and retain skilled and experienced personnel and prioritise organisational development to optimise the Bank's human capital

The Bank seeks to strengthen its ability to attract and retain skilled and experienced personnel in order to serve clients better. Given the fast changing environment that the Bank operates in, the Bank is making a conscious effort to continuously focus on management and skills training by conducting and facilitating internal and external training programmes and developing technology-based tools to help increase employee efficiency.

Business

The Bank is a universal bank that offers a wide range of commercial, retail and corporate banking products and services. The principal products and services of the Bank include traditional loan and deposit products, treasury, trust banking, investment banking, cash management and credit card services. These businesses are categorised into six operating groups: Retail Banking, Corporate Banking, Trust and Investments, Treasury Group, Consumer Banking (principally through RSB) and Global Transaction Banking.

For financial reporting purposes, the Treasury Group includes Trust and Investments and the "Others" business segment includes the Global Transaction Banking and Consumer Banking (including RSB).

The following table sets out the consolidated pre-tax profit and net profit of the Bank's divisions and as a percentage of the total net profit for the periods indicated:

	For the year ended 31 December	Nine months ended 30 September,

	2014		2015		2016		2016		2017	
(in ₱ millions)	Amount	per cent.	Amount	per cent.	Amount	per cent.	Amount	per cent.	Amount	per cent.
Retail Banking	829	15.6	2,859	45.0	4,813	134.0	3,688	116.6	4,448	113.6
Corporate Banking	6,032	113.3	6,595	136.8	7,190	200.2	5,312	168.0	6,053	154.6
Treasury Group	1,345	25.3	1,139	23.6	2,391	66.6	2,178	68.9	2,074	53.0
Others	(2,882)	(54.1)	(5,082)	(105.4)	(10,802)	(300.7)	(8,015)	(253.5)	(8,661)	(221.3)
Total Profit before Tax and Non-controlling Interest.....	5,324	100.0	4,821	100.0	3,592	100.0	3,162	100.0	3,914	100.0
Tax Expense	(914)	-	307	-	277	-	(339)	(10.7)	(509)	(13.0)
Non-controlling Interest in Net Profit	-	-	-	-	(1)	-	-	-	-	-
Net Profit	**4,410**	**82.8**	**5,128**	**106.4**	**3,868**	**107.7**	**3,501**	**110.7**	**3,405**	**87.0**

Retail Banking

The RBG consists of branches offering a wide range of products and services to the Bank's various customers. For the nine months ended 30 September 2017, the RBG accounted for 113.6 per cent. of the Bank's consolidated pre-tax income. As of 30 September 2017, the RBG operated through 301 branches and 25 extension offices (excluding RSB and RMB branches).

The Bank continued to broaden its reach in the retail, SME, and corporate markets in 2017, as it capitalised on its strategically located business centres, 1,085 ATMs nationwide, and efficient electronic channels.

The RBG is at the forefront of this effort. While providing high quality service, its business centres intensified customer penetration with a diverse set of product offerings including traditional deposits, consumer loans through RSB, SME business loans, trust and treasury investment products, pre-paid cards under the *MyWallet* brand, credit cards under the *Bankard* brand, and bancassurance protection products such as life and non-life insurance products of Sunlife-Grepa and Malayan Insurance Co., Inc. (**Malayan**), respectively.

Through collective and collaborative efforts among various operating groups of the Bank, the RBG continues to enhance and innovate both product offerings and service delivery. The Bank's Super Value Checking Account bundles the accessibility of a checking account, the convenience of a savings account, and the benefits of a tiered interest-bearing account. The eWoman Checking Account provides all these as well as a free life insurance. As long as the client maintains an average daily balance of at least ₱35,000, she will be covered by twice her six month average daily balance. The maximum coverage is ₱1,000,000.

In December 2014, the BSP granted the Bank the authority to establish 50 business centres in Metro Manila. The added footprint capacity, within the still fastest growing area in the country, allowed the Bank to strengthen its capacity to deliver quality service and to offer diverse product offerings to better service its growing customer base.

The pilot implementation of the Bank's lobby management system and the re-engineered account opening process was deployed in the first half of 2015. Its features include pre-staging of transactions and account opening not only in business centres, but also in a customer's home or office or while mobile.

The Bank also recognises technology as a tool and channel to meet the needs of its customers. The Bank is present in social media such as Twitter and Facebook and continues to improve electronic banking channels by, among others, the re-launching of RCBC Online Banking, formerly known as RCBC AccessOne internet banking platform. Key account management and transactional features of RCBC Online Banking include account enrolment, account summary and transaction history, security features (user login, OTP, security question, transactional password), fund transfer (within RCBC/RSB or other banks), bills payment, time deposit placement and payout, checkbook reorder, remittance inquiry, electronic statement of account / integrated statement of account, ePayslip, eShop payment, reload (mobile prepaid, GCash, ePins), online UITF placement, card lock-unlock, email or SMS alerts and customised dashboard, among others.

Bancassurance

Previous BSP regulations on cross-selling required that banks shall only cross-sell financial products of a regulated entity belonging to the same financial conglomerate. A bank is required to make an investment of at least five per cent. in an insurance company to allow it to enter into a bancassurance business and widen its product offering to include life and non-life insurance products. On 1 August 2014, the Monetary Board approved BSP Circular No. 844 outlining the guidelines for the cross-selling of collective investment schemes (**CIS**) and amendments to certain provisions of the Manual of Regulations for Banks as provided under BSP Circular No. 801. Under BSP Circular No. 844, simple insurance products such as traditional life, non-life and other similar protection type insurance products, except variable insurance contracts, governed by the Insurance Code of the Philippines (the **Insurance Code**) may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not. CIS which include financial providers such as mutual funds registered by the Philippine SEC, unit investment trust funds authorised by the BSP, and variable unit-linked life insurance policies governed by the Insurance Code or under the relevant rules and regulations as may be issued by the Insurance Commission of the Philippines.

Share swap with MICO Equities, Inc.

On 1 March 2010, the Bank purchased a 5.6 per cent. equity interest in MICO Equities, Inc. (**MICO**), YGC's holding company for its non-life insurance business, through a swap of 41,993,389 common shares of the Bank in exchange for 169,059 shares in MICO. This share swap allowed the Bank to enter into a bancassurance partnership with MICO's subsidiary, Malayan. Under this partnership arrangement, Malayan's insurance products may be sold through the Bank's branch network throughout the Philippines.

Bancassurance partnership with Grepalife

In October 2009, the Bank sold one million shares in Great Life Financial Assurance Corporation (**Great Life**), representing 20 per cent. of the total outstanding shares of Great Life, to Great Pacific Life Assurance Corporation (**Grepalife**). This sale facilitated the merger of Great Life and Grepalife thereby allowing Grepalife to enjoy the benefits of a stronger company with economies of scale, a wider customer base and market reach. The Bank has a five per cent. interest in Grepalife and through such ownership retained its bancassurance partnership with Grepalife. The merger of Great Life into Grepalife allowed the Bank to continue to grow its bancassurance partnership with a more effective and bigger Grepalife.

Bancassurance relationship with Sun Life Financial

In February 2011, Sun Life Financial announced that it had entered into an agreement with GPL Holdings, Inc., a member of YGC, to acquire 49 per cent. of Grepalife Financial, Inc., which resulted in the creation of a restructured entity, Sun Life Grepa Financial, Inc. The new joint venture entity allowed Sun Life Financial Philippines to form a bancassurance relationship with the Bank and provide protection products to the Bank's clients nationwide. Pursuant to the agreement, Sun Life Grepa Financial, Inc. entered into an exclusive distribution agreement with the Bank, which has given rise to a line of insurance products that have been made available to the Bank's customer base through its branch network. The transaction received regulatory approval in February 2012.

Corporate Banking

The CBG accounted for ₱182.9 billion (U.S.$3.6 billion) or approximately 59.3 per cent. of the Bank's loan portfolio and 154.6 per cent. of the Bank's consolidated pre-tax income for the nine months ended 30 September 2017 compared to 200.2 per cent. and 136.8 per cent. of the Bank's consolidated pre-tax income for the years ended 31 December 2016 and 2015, respectively. The CBG provides its corporate customers with a wide range of banking products and services, including deposit products, cash management services, revolving credit lines, medium- and long-term loans, project finance loans, foreign currency loans, trade-related financing, payment remittances and foreign exchange transactions. The CBG caters to four customer segments: (i) large corporations, which play a major role in both the local and global economy; (ii) Japanese multinationals with a strong presence in the Philippines; (iii) Filipino-Chinese businesses; and (iv) SMEs. The Bank also has an established track record of servicing clients in special economic zones.

The Bank believes the corporate market will remain a growth area. To further enhance relationships with large corporate clients, assistance in the form of loans has also been offered to key suppliers, distributors, and other business partners of these clients under the Bank's supply chain financing programme. Many of the CBG's corporate clients are included in the list of the "Philippines' Top 1000 Corporations" published annually by BusinessWorld.

The Bank provides corporate lending and cash management services to Japanese entities that operate in the Philippines, many with whom the Bank has had long-standing relationships. The Bank established many of its relationships with Japanese clients through its affiliation with UFJ. The Bank believes that it has established a strong reputation among Japanese entities and that it will continue to be competitive in this sector following UFJ's disposal of the Bank's shares. The Bank hired two Japanese officers in 2006 to continuously strengthen relationship with its clientele and defend its market share from increasing competition.

The CBG also specialises in providing banking services to clients located in special economic zones, particularly Japanese clients. Special economic zones, or "ecozones", are independent communities within the Philippines that administer their own economic, financial, industrial and tourism development. Companies that operate within ecozones receive certain tax benefits and must meet certain standards of operations. As of 30 September 2017, there were 73 active ecozones in the Philippines. As of the same date, the Bank has established 25 branches within the area of certain ecozones to better serve its customers.

CBG is also a leading provider of corporate banking services to Filipino-Chinese clients focusing on trade finance to finance import requirements. The Bank believes that its membership in YGC, which includes a number of Filipino-Chinese companies, is an asset in attracting and maintaining Filipino-Chinese customers. This is therefore an area in which the Bank will continue to maintain a strong presence.

After consolidating its SME lending from RBG to CBG, the Bank initiated a five-year business plan in 2008 aimed at strengthening its presence in the SME market. The five-year plan ended in 2013. Its key achievements includes increased strategic access points by increasing its lending centres from 11 in 2013 to 14 lending centres and 13 satellite offices or a total of 27 access points penetrating 17 of the country's 18 regions in 2015. The Bank also established a business control and program development department in 2015 to provide strong backroom support to ensure the commercial and SME segment (**CSME**) maintains a high quality portfolio as it serves the need of the growing SME market. In addition The Bank met its growth targets under the East Asia Pacific Women in Business Program and disbursed more than 3,000 loans to SMEs amounting to ₱8 billion from 2014 to June 2017. The Bank also successfully completed the engagement of IFC to provide advisory services relating to the design of non-financial service (**NFS**) products. To date, CSME is implementing NFS more dynamically. The Bank has identified two key NFS products that can leverage off the Bank's existing infrastructure to attain customer acquisition objectives. These are Offline Networking, a series of networking events that includes an expert speaker presentation and networking opportunities between existing and potential new customers, and Online Portal which is a redesigned SME business web portal that will serve as the Bank's platform in providing value added service to SME clients towards capacity building and business expansion. The portal is envisioned to be a one-stop shop for the SMEs' various financial and business requirements. It will also serve as access point for SMEs to the Bank's digital technology and services to help them grow their business.

CSME intends to increase brand awareness and initiate programmes and activities to make the Bank's SME banking the top choice among entrepreneurs. In addition, CSME is planning to go digital in three ways: first, revamp or redesign the getaloan portal into an SME business portal second, provide digital solutions to clients covering accounting tools and human resources solutions; and lastly, engage in digital and campaigns. CSME is also planning to accelerate growth of its provincial portfolio which may include opening of additional lending centres or satellite offices. This involved changing the Bank's loan origination and administration processes, strengthening organisation, and using technology to bring the Bank closer to SMEs. The Bank implemented a new screening system for loans, introduced credit scoring, simplified handling of existing accounts, and opened additional CSMES offices around the country increasing the number of lending centres from four to nine.

In the third year of the business plan, the Bank introduced the first ever internet-based loan self-assessment service in the country in response to the BSP's call for banks to make themselves more accessible to SMEs. Despite higher costs, SMEs often opted to approach informal lenders instead of banks either because of a lack of familiarity with banking requirements or because they found compiling documents for bank loans difficult or personal interviews intimidating. The Bank developed its business web portal, www.getaloan.com.ph, as part of its capacity building for SMEs. The main feature of the website is a loan self-assessment exercise where potential borrowers are asked 15 questions. At the end of the exercise, the potential borrower will be informed whether he is eligible for a business loan. Once the client passes the loan-self assessment exercise, he will be asked his personal information and contact details for a bank loan officer to get in touch with him within 48 hours.

During the first half of 2012, the Bank formally launched another first in the Philippine banking industry – the phone version of its loan self-assessment exercise – the "Phone-A-Loan" programme. It allows SMEs to conduct a loan self-assessment prompted by an interactive voice response system. The Bank also launched another first – the "Women’s Enterprise Loan", a loan programme designed specifically for women entrepreneurs. Its features include loans to employees, priority banking lanes, discounts on insurance, pre-approved credit cards as well as perks and bonuses from selected merchandise partners, health spas and fitness centres.

These SME initiatives earned both local and international awards for the Bank. In 2010, the Anvil Award of Merit was given to the Bank by the Philippine Society of Public Relations for its www.getaloan.com.ph business web portal. The Asian Banking and Finance Publication awarded the Bank Philippine Domestic Technology and Operations Bank of the Year for its Phone-A-Loan programme and Philippine Domestic SME Bank of the Year for 2012. In 2016, the Bank received the Best SME Bank Philippines Award at the CFI.co (Capital Finance International) Awards.

The Bank continues to expand its reach in the SME market. The Bank further increased its lending centres from 11 to 27 as of 30 September 2017. As of 30 September 2017, the Bank’s total SME market loan portfolio amounted to ₱37.5 billion (U.S.$737.0 million) or 11.0 per cent. of the Bank’s consolidated total loan portfolio, compared to ₱36.9 billion (U.S.$0.742 million) as of 31 December 2016.

The short-term credit facilities that CBG provides are principally for working capital. Trade-related credit facilities include foreign and domestic letters of credit and trust receipt lines as well as export advance lines and the discounting of commercial bills. Long-term loans (i.e. those with maturities in excess of one year) are generally in the form of project financing loans. These include loans to finance the construction or acquisition of plant, factories or buildings, the acquisition of equipment and other capital expenditures.

The CBG offers both Peso-denominated and foreign currency-denominated (primarily U.S. dollar) loans. The Bank’s policy is to extend foreign currency loans only to exporter customers who have foreign currency revenues or are otherwise hedged. Most of CBG’s corporate loans are made on a floating rate basis. CBG’s corporate lending is made on both syndicated and non-syndicated bases.

The Bank also offers products from the Treasury Group to support its corporate clients’ increasingly sophisticated needs through funding and hedging products. CBG has successfully assisted clients in accessing long-term capital via public market offerings and other debt and quasi-equity funding structures.

Treasury Group

The Bank's Treasury Group accounted for 25.3 per cent., 23.6 per cent., 66.6 per cent. and 53.0 per cent. of the Bank's consolidated pre-tax income for the years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2017, respectively.

The Treasury Group is comprised of the following: the Balance Sheet Management Segment, the Commercial Trading and Sales Segment, the Investments and Markets Trading Segment and the Financial Institutions Management Division. The following describes the key functions of the segments / division:

- The Balance Sheet Management Segment handles cash flow management, medium-term to long-term funding and asset/liability management and pricing.

- The Commercial Trading and Sales Segment consolidates commercial trading and distribution of treasury products to clients.

- The Investments and Markets Trading Segment handles proprietary risk-taking from market views and analysis.

- The Financial Institutions Management Segment is responsible for the correspondent banking business, including expanding liability sources and exploring new trade product structures from its relationships with other financial institutions.

Total Investment Portfolio

The following tables set forth, as of the dates indicated, information relating to the Group's total investment portfolio.

	As of 31 December												As of 30 September			
	2014				2015				2016				2017			
(in ₱ millions)	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss
Governmental securities	67,687	66,163	-	-	57,349	55,621	-	-	40,812	35,953	-	-	36,140	34,487	-	-
Other debt securities	25,507	26,147	-	-	46,310	45,872	-	-	26,388	23,315	-	-	24,436	26,536	-	-
Total debt securities	**93,194**	**92,310**	**-**	**-**	**103,659**	**101,493**	**-**	**-**	**67,200**	**59,268**	**-**	**-**	**60,576**	**61,023**	**-**	**-**
Non-debt securities	7,596	6,241	835	-	7,542	7,542	689	-	8,422	8,422	1,965	-	7,515	7,515	2,015	-
Total................	**100,790**	**98,551**	**835**	**-**	**111,201**	**109,035**	**689**	**-**	**75,622**	**67,690**	**1,965**	**-**	**68,091**	**68,538**	**2,015**	**-**

Fair Value Through Other Comprehensive Income

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at fair value through other comprehensive income in accordance with PFRS 9.

	As of 31 December												As of 30 September			
	2014				2015				2016				2017			
(in ₱ millions)	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss
Governmental securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total debt securities	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**	**-**	**-**
Non-debt securities	4,537	4,537	835	-	4,208	4,208	689	-	5,679	5,679	1,965	-	5,520	5,520	2,015	-
Total.................	**4,537**	**4,537**	**835**	**-**	**4,208**	**4,208**	**689**	**-**	**5,679**	**5,679**	**1,965**	**-**	**5,520**	**5,520**	**2,015**	**-**

Financial Assets at Fair Value Through Profit or Loss

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at fair value through profit or loss.

	As of 31 December												Nine months ended 30 September			
	2014				2015[(1)]				2016[(1)]				2017			
(in ₱ millions)	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss
Governmental securities..........	10,692	10,692	-	-	1,256	1,256	-	-	14,822	14,822	-	-	2,023	2,023	-	-
Other debt securities..........	2,707	2,707	-	-	522	522	-	-	514	514	-	-	1,581	1,581	-	-
Total debt securities	**13,399**	**13,399**	**-**	**-**	**1,778**	**1,778**	**-**	**-**	**15,336**	**15,336**	**-**	**-**	**3,604**	**3,604**	**-**	**-**
Non-debt securities..........	3,059	3,059	-	-	3,334	3,334	-	-	2,743	2,743	-	-	1,995	1,995	-	-
Total.................	**16,458**	**16,458**	**-**	**-**	**5,112**	**5,112**	**-**	**-**	**18,079**	**18,079**	**-**	**-**	**5,599**	**5,599**	**-**	**-**

Note:

(1) In accordance with PFRS 9.

Amortised Cost

The following table sets forth, as of the dates indicated, information related to the Group's financial assets at amortized cost in accordance with PFRS 9.

	As of 31 December												As of 30 September			
	2014				2015				2016				2017			
(in ₱ millions)	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss	Book Value	Market Value	Unrealised Gain	Unrealised Loss
Governmental securities..........	56,995	55,471	-	-	56,093	54,365	-	-	25,990	21,131	-	-	34,117	32,464	-	-
Other debt securities..........	22,800	23,440	-	-	45,788	45,350	-	-	25,874	22,801	-	-	22,855	24,955	-	-
Total debt securities	**79,795**	**78,911**	**-**	**-**	**101,881**	**99,715**	**-**	**-**	**51,864**	**43,932**	**-**	**-**	**56,972**	**57,419**	**-**	**-**
Non-debt securities..........	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total.................	**79,795**	**78,911**	**-**	**-**	**101,881**	**99,715**	**-**	**-**	**51,864**	**43,932**	**-**	**-**	**56,972**	**57,419**	**-**	**-**

Trust and Investments

The Trust and Investments Group has an established track record in trust and asset management. As of 30 September 2017, the Bank has unconsolidated trust assets of ₱64.5 billion (U.S.$1.3 billion). On a consolidated basis, the Bank's trust assets of ₱90.5 billion (U.S.$1.8 billion) ranked sixth among local and foreign trust entities doing business in the Philippines. Trust, investment management and other fiduciary accounts continued to account for the bulk of the Bank's trust arrangements. These consist of retirement funds, institutional trust funds, pre-need accounts, personal trusts and investment management arrangements, which accounted for 86.3 per cent. of total trust assets as of 30 September 2017. The balance consists of the volume of pooled funds. The Bank offers its trust products to corporate and institutional investors as well as to high net-worth individuals and retail investors requiring low minimum thresholds.

The Bank has been active in garnering roles in several public listed securities, being appointed by major industry player companies as receiving bank, escrow bank and/or stock transfer agent for preferred shares issuances and initial public offerings as well as trustee for bond issuances.

In September 2004, the BSP issued BSP Circular No. 447 which provided guidelines for the launching and offering of Unit Investment Trust Funds (**UITFs**). UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The objective of the BSP was to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. As of the date of this Offering Circular, the Bank has a total of eight UITFs, five of which were launched in 2005, one in 2009 and two new UITFs were launched in the latter part of 2014. These products include Peso and U.S. dollar denominated money market and fixed income funds, a local balanced fund and local and global equity funds.

The Bank has made an active effort to promote and educate investors regarding UITFs and increased its UITF volume in 2006. Beginning in May 2007, however, UITF volume showed a declining trend from the end-2006 level as a result of the shift in clients' interest to the BSP's Special Deposit Accounts, which were made available to investors through trust institutions. In 2013, access to the BSP Special Deposit Account facility was closed to accounts booked under investment management and agency agreements which prompted investors to shift to UITFs again as they scout for alternative high-yielding investments. As of 30 September 2017, UITF volume showed a decrease of ₱0.724 billion or 9.42 per cent. compared to 30 September 2016 due to the tight competition with bank products such as LTNCDs offering higher guaranteed rates and with the insurance companies offering their variable universal life insurance more aggressively.

The two UITFs launched in 2014 were the Rizal Peso Cash Management Fund (**RPCMF**) and the Rizal Global Equity Feeder Fund (**RGEFF**). The RPCMF is a money market fund that provides high liquidity and competitive yields to high net worth individuals, corporate and institutional accounts. The RGEFF is a feeder fund that invests at least ninety per cent. of its portfolio in the Morgan Stanley Global Quality Fund. It provides clients convenient access to global equity markets at an affordable investment amount. The RGEFF is in line with BSP Circular No. 767 issued in 2012 that allows trust institutions to offer UITFs with either a feeder fund or fund-of-fund structure.

In 2016, one of the Bank's UITF, the Rizal Dollar Bond Fund placed third in the Best Managed Fund for Bond Fund - Long-term Dollar Category at the inaugural search for Best Managed Fund of the Year by the Chartered Financial Analysts Society if the Philippines. In the same year, another prestigious award-giving firm, the Asset Benchmark Research recognised one of the Bank's senior fixed income trader among the Top Ten Most Astute Investors in Asian Local Currency Bonds Category.

RCBC eTRUST is one of the value-added services provided by the Bank's Trust and Investments Group that differentiates it from its competitors. RCBC eTRUST, an online facility, allows the Bank's clients to view their latest financial statements or statements of account as soon as they are available.

In 2012, the Bank's Trust and Investments Group launched its Retail Employee Savings Plan. This product aims to promote personal savings among a company's employees by having an affordable and convenient way of setting aside funds through automatic deductions from their payroll on a monthly basis. The employees are able to access potentially higher returns with minimum contributions.

The Bank implemented homegrown systems, the Administrative Review Monitoring System (**ARMS**) in May 2015 and the Trade Order Monitoring System (**TOMS**) in May 2016. ARMS facilitates the periodic administrative review of trust accounts by portfolio managers that allows them to systematically monitor the progress of the account reviews. TOMS, on the other hand, is a real-time risk management system that ensures the compliance of trust portfolio managers and trust traders with regulatory limits, internal limits and the investment parameters prescribed by the clients. Both systems also serve as management's tools for compliance monitoring.

Under existing BSP regulations, the Bank is required to deposit Government securities with a value equivalent to 1.0 per cent. of the average book value of the total volume of trust, fiduciary and investment management assets with the BSP as security for the performance of its trust duties. In addition, an amount equal to 17.0 per cent. of the volume of certain trust accounts classified under BSP regulations as Trust and Other Fiduciary Accounts. Others are required to be maintained in the form of demand deposit accounts with the BSP. UITFs are however exempt from such reserve requirements. BSP regulations also prescribe that loans granted by trust accounts (excluding UITFs) to the Bank's directors, officers, stockholders and related interests (**DOSRI**) are included in determining the Bank's compliance with the regulatory limits on DOSRI loans. In managing UITFs, the combined exposure of the fund in any entity and its related parties shall not exceed 15 per cent. of the market value of the fund, except in the case of exchange traded equity securities where the maximum exposure of the UITFs is the actual benchmark index weighting of the issue or 15 per cent. of the market value of the fund, whichever is higher. These exposure limits prescribed for UITFs do not apply to non-risk assets as defined by the BSP.

Consumer Banking

The Bank's Consumer Banking primarily provides mortgage loans and auto loans through RSB and issues credit cards. The Bank's branches, both commercial and savings, provide promotional materials on consumer loans, credit cards and insurance products.

RCBC Savings Bank

In 1996, RSB was established as the Bank's thrift banking arm and was subsequently bolstered by the acquisition of Capitol Development Bank, a thrift bank, in 1998. RSB is a wholly-owned subsidiary of the Bank and is operated separately and branded differently from the Bank. As of 30 September 2017, RSB had 149 branches and five extensions (two in Metro Manila and three in the Luzon region), through which it takes deposits and offers consumer loans products.

RSB offers its customers a wide variety of deposit products and also offers consumer loan products such as home mortgage loans, auto loans and personal/salary-deducted loans, which made up approximately 12.0 per cent. (₱40.0 billion (U.S.$0.8 billion)), 10.0 per cent. (₱35 billion (U.S.$0.7 billion)) and 13.0 per cent. (₱0.4 billion (U.S.$7.9 million)) of its total loan portfolio as of 30 September 2017.

The following table indicates total consumer loans in millions of Pesos as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(in ₱ millions)			
Home mortgage loans..........................	29,079	33,856	37,031	40,008
Auto loans	18,424	23,356	31,410	35,082
Salary/Personal loans	685	633	455	434
Others	4,447	5,321	3,688	430
Total	**52,635**	**63,166**	**72,584**	**75,954**

RSB's total assets amounted to ₱110.5 billion (U.S.$2.2 billion) as of 30 September 2017, making it the third largest thrift bank in terms of assets based on published statement of condition. RSB was also the third largest thrift bank in terms of deposits and loans as of the same period.

The total net income of RSB amounted to ₱1.0 billion, ₱1.3 billion, ₱1.0 billion and ₱ 1.0 billion (U.S.$19.7 million) for the years ended 31 December 2014, 2015 and 2016 and for the nine months ended 30 September 2017, accounting for 19.5 per cent., 25.9 per cent., 27.2 per cent. and 24.3 per cent., respectively, of the Bank's consolidated pre-tax income. As of 31 December 2014, 2015 and 2016 and 30 September 2017, RSB's capital adequacy ratio was 13.6 per cent., 13.5 per cent., 13.4 per cent. and 13.6 per cent, respectively.

Residential Mortgage Loans

The Bank's residential mortgage loans have a term of 1 to 20 years with loan amounts of ₱300,000 and above. Mortgage loans are secured by a first mortgage on the property being purchased. Such loans are insured with the Home Guaranty Corporation (the **HGC**) and may be called upon if the borrower misses payments for six months or more. Mortgage loans are typically payable in monthly amortising payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80 per cent. of the internally-appraised value of the house and lot. The Bank requires borrowers to obtain both fire insurance and mortgage redemption insurance and will generally refer these customers to the Bank's insurance brokerage.

All RSB mortgage loans are secured by a first legal charge on the property. In addition, RSB generally requires residential mortgage borrowers to have an equity interest of at least 20.0 per cent. of the value of the property, including loans guaranteed by the HGC.

Auto Loans

RSB also provides auto financing to individuals, mainly for the acquisition of new vehicles, although RSB also finances the acquisition of second-hand vehicles and provides general purpose loans secured by customer's vehicles. As of 30 September 2017, the Bank had ₱35.1 billion (U.S.$0.7 billion) in auto loans. RSB's auto loans are typically between ₱100,000 and ₱700,000 in amount and for terms of between 24 and 48 months on average. The minimum and maximum terms are 12 and 60 months, respectively. The applicable interest rate is generally fixed with an amortising repayment schedule over the term of the loan. RSB also typically lends up to 70 per cent. of the value of a new car. For second-hand vehicles, RSB lends up to 70 per cent. of the appraised value or selling price (whichever is lower) for vehicles between one and two years old, and up to 50 to 60 per cent. of the appraised value or selling price (whichever is lower) for vehicles older than two years. The maximum amount varies depending on the model and year of the car and is based on RSB's internal assessments of the resale value.

RSB's auto loans are generated from car dealerships, independent sales agents, and sourced internally through branch referrals, walk-in clients and refinancing. RSB also provides economic incentives to car dealerships and independent sales agents based on each approved auto loan amount.

All of RSB's auto loans are secured by a first legal charge over the cars being purchased. In addition, RSB generally requires car buyers to make a minimum down payment of 20 per cent. of the purchase price. The interest rates of RSB's auto loans are competitive and range from 8.0 per cent. to 10.0 per cent.

RSB's policy towards foreclosure proceedings on auto loans is more conservative than that typically followed in the Philippine banking industry. RSB commences foreclosure proceedings when an instalment payment falls past due for 90 days, as opposed to 121 days for most banks. It generally takes between five to eight months from the past due date to foreclose on the car, which is then sold through a public auction.

Personal and Salary Loans

The Bank offers two products: personal loans and salary loans. Personal loans are offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the respective companies at which customers are employed. As of 30 September 2017, the personal loan portfolio of the Bank comprised ₱172 million (U.S.$3.5 million) while the Bank's salary loan portfolio comprised ₱262 million (U.S.$5.3 million).

The Bank offers unsecured personal loans in amounts from ₱50,000 to ₱1.0 million. As of 30 September 2017, the average amount of unsecured personal loan is at ₱129,000. Payment is through issuance of post-dated cheques or automatic debit arrangement. Salary loans, which are only offered through accredited companies and by way of salary deduction, range from ₱20,000 to ₱500,000 with an average of ₱90,000 as of 30 September 2017.

Micro Finance

High but sustainable growth in the high yielding microfinance market is a key part of the Bank's strategy, capturing market share in what the Bank views as the major engine of growth in the Philippines banking sector, a segment that is generally regarded as under-banked. That growth will be assisted by the Bank's strategy of cross-selling across business segments to similar and overlapping customer segments. In order to preserve asset quality, the Bank is focused on targeted growth, and carefully selects the customer segments it markets to in each business sector to ensure sustainable growth, with carefully managed NPL rates and low cost of credit.

The Bank's venture into microfinance through its subsidiary RMB has consistently shown growth and improvement since it started its operations in mid-2010. RMB has consistently posted double-digit growth in key performance indicators such as loan disbursement, loan portfolio and active borrowers. As of September 2017, year-on-year growth figures for disbursement, portfolio and number of active borrowers are at 34 per cent., 42 per cent. and 31 per cent., respectively. Average portfolio yield as of 30 September 2017 is at 23 per cent. while net interest margin is at 15.11 per cent. Although the portfolio quality measured by portfolio-at-risk ratio more than 30 days is at 6.69 per cent., higher than the international standard of 3 per cent., RMB's performance in this area is better than the Philippine microfinance average performance of 10 per cent. based on the monitoring of the Microfinance Council of the Philippines, Inc. As a result of concerted efforts to improve operations, RMB registered monthly positive income beginning May 2016 and sustained this until December 2016, enabling the subsidiary to drastically bring down its previous net losses to just a single-digit, thereby almost completely turning-around the microfinance operation in 2016. RMB bottomline as of 31 December 2016 stood at negative ₱3.3 million, a vast improvement from the net loss of approximately ₱65 million as of 31 December 2015. The Bank believes that the performance of RMB is aligned with the international experience of microfinance start-ups which achieve their break-even levels after six to eight years of operation.

In 2018, RMB will start implementing its five-year strategic and business plan. Under the plan, RMB aims, by 2022, to be the go-to credit partner of small entrepreneurs, especially those in the agricultural sector and register a ₱5 billion portfolio and 10,000 active clients. RMB plans to implement an enhanced business model which combines traditional banking set-up (brick and mortar) and digital banking. The Bank believes that digital banking, which is being pursued through internal and external strategic partnerships, will enable RMB to efficiently and effectively reach out to a wide number of underserved and underbanked segments of the Philippine population. In addition, digital banking will complement the branch and micro-banking office network of RMB which are distributed as follows: eight branches in the southern Tagalog region, two branches in the Visayas region, eight branches in the Mindanao region, three micro-banking offices in Luzon, and 2 micro-banking offices in Mindanao. RMB targets to add ten additional branches as part of its five-year strategic and business plan. As of 30 September 2017, the total outstanding loans under the Bank's microfinance operations amounted to ₽896 million (U.S.$17.23 million) with 2,769 active borrowers. The Bank believes that growth in its microfinance client base can lead to growth in its SME business.

Deposit Products

RSB provides its customers with a variety of deposit accounts, including non-interest bearing demand deposits, interest-bearing combinations of cheque book and savings accounts (including savings accounts, checking accounts, time deposits, and premium time deposits) and fixed and floating rate savings accounts. In addition to offering conventional deposit products, RSB offers a variety of special value-added products and services thereby increasing product offerings and providing greater convenience for customers, including products tailored for OFWs and their beneficiaries who remain in the Philippines and U.S. dollar time deposits.

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With total deposits of ₽94.8 billion (U.S.$1.87 billion), RSB ranked third in terms of total deposits among other thrift banks as of 30 September 2017. This represented 25.2 per cent. of the Bank's consolidated deposits as of the same period. The total net income of RSB amounted to ₽972.8 million (U.S.19.1 million) for the period ended 30 September 2017, accounting for 28.6 per cent. of the Bank's consolidated net income.

Credit Card Operations

Since acquiring substantially all of the assets of Bankard, Inc. (**Bankard**) (a subsidiary of the Bank) in December 2006, the Bank has been conducting credit card operations at the parent company level. Under the terms of the acquisition, the Bank acquired, among other things, ₽7.2 billion of credit card receivables and certain building units. The consideration for the sale included the assumption of certain liabilities and the set-off of certain debts owed by Bankard. Following the sale, RCBC wrote off ₽2.6 billion of credit card receivables acquired from Bankard against allowance for impairments. Bankard maintained ₽3.2 billion of overdue receivables for which it has made full provision.

Bankard and the Bank have entered into a services agreement pursuant to which the Bank outsourced the servicing of its credit card business to Bankard. These services include marketing, distribution, technical, collection, selling assistance and processing services. On 18 October 2013, the Board approved the sale of its 89.98 per cent. collective stake in Bankard, Inc. to RYM Business Management Corp. together with other investors. In view of the change in ownership and management, the credit card operations of the Bank were transferred from Bankard to RCBC Bankard Services Corporation (**RCBC Bankard**), a wholly owned subsidiary of RCBC Capital, effective 16 December 2013.

The Bank is engaged in two principal credit card activities: card issuing and merchant acquiring. The Bank derives income from annual fees charged to cardholders, transaction commissions from merchants, fees on cash advances and interest income on outstanding card receivables, currently at the rate of 2.0 to 3.5 per cent. per month and, on penalties for past due accounts, ranging from ₽200 to 7.0 per cent. of the past due amount per month. Annual cardholder fees range from ₽720 to ₽3,600. The interest rates on deferred and instalment payments range from 22.6 per cent. to 34.6 per cent. per annum. The total amount of cash advance is limited to 30.0 per cent. to 50.0 per cent. of the credit limit with a cap of ₽100,000 to ₽250,000, respectively. Interchange fees range from 0.3 per cent. to 2.3 per cent. Funding for the Bank's credit card operations is provided by a combination of internally generated funds and retained earnings

Credit Card Issuance

The Bank has been licenced by each of Visa International, Mastercard International Inc., Japan Credit Bureau and UnionPay International to issue credit cards under each respective brand. Based on the Credit Card Association of the Philippines' industry report which excludes Banco de Oro, RCBC Bankard is the fifth largest credit card brand in the Philippines in terms of credit cards issued and issuing billings as of 30 September 2017.The Bank's strategic plan focuses on increasing the number of credit cards issued and growing the credit card receivable portfolio.

As a necessary support to credit card issuance, the Bank offers its customers an "Interactive Voice Response System", a customer hotline service through a call centre operated 24 hours a day seven days a week, online statement of account viewing and statement fax-on-demand, all free of charge.

As of 30 September 2017, total outstanding credit balances amounted to ₱14.9 billion (U.S.$293.2 million). The delinquency rate on balances overdue for more than 30 days was 4.04 per cent. as of 30 September 2017. In August 2003, the BSP issued Circular No. 398 under which credit card companies were required to move from measuring delinquencies by bucketed aging, which classifies outstanding balances depending on when the balance becomes due, to accelerated aging whereby all the receivables from a single cardholder are aged-based on the longest dated overdue charge, even if there are other charges for such account which may not be overdue.

The following table sets out RCBC Bankard's total credit card balance, credit card numbers, revenues, operating income, total credit billings and delinquency rates as of and for the periods indicated;

	As of and for the year ended 31 December			For the nine months ended 30 September
	2014	2015	2016	2017
	(in ₱ millions, except credit cards outstanding and delinquency rate)[5]			
Cardholder fees and commission income	831	856	1,002	844
Merchant acquirer commissions	67	63	62	50
Net interest income (loss)[1]	2,459	2,382	2,534	2,149
Operating income...................................	1,844	1,687	1,763	1,501
Provisional for loan losses	1,236	830	726	547
Credit card balances[2]	10,239	10,498	12,328	14,475
Credit card charge volume[3]	24,807	25,961	31,819	27,846
Credit card outstanding (in thousands)...	486	498	532	562
Delinquency rate[4]	7.4	5.8	4.7	4.0

Notes:

(1) Includes financing income net of funding cost.

(2) Includes credit card loans from current to 179 days past due.

(3) Charge volume is equivalent to gross billings of cardholders.

(4) Delinquent balances are those that are overdue for 30 to 179days. Delinquency rate equals the total delinquent balance divided by total credit card receivables current to 179 days past due.

(5) All amounts are based on the credit card business in the Bank's books (based on simple summation of the amounts).

RCBC Bankard credit cards are sold through the Bank's and RSB's branch network, other YGC companies and business partners through the RCBC Bankard co-brand partnerships. Credit card acquisition is also promoted via direct sales and telesales, direct mailings, magazines, inserts, sponsorships, events and building blitzes.

Merchant Acquiring

From April 2004, the Bank shifted its focus to concentrate resources on its larger and more profitable customers and rationalising its merchant acquiring business. This resulted to scaling down its number of merchant customers from approximately 30,000 to around 500 by the end of 2008, reduction in headcount and the closure of three provincial service centres. Subsequent to the rationalisation, the

Bank started to expand its merchant acquiring business and had an annual growth rate of 10 per cent.. As of 30 September 2017, the Bank had relationships with approximately 2,431 head office merchant relationships and 7,710 merchant outlets. The top 200 of the merchant relationships provide more than 93 per cent. of the Bank's total credit card billings. Acquiring volume for the year ended 30 September 2017 amounted to ₱14.6 billion (U.S.$287.3 million). Gross merchant discount as of 30 September 2017 amounted to ₱218.8 million (U.S.$4.3 billion).

Branch Banking

As of 30 September 2017, the Bank had a total of 468 branches including 35 extension offices, of which 326 branches belonged to the Bank, 154 to RSB, and 23 to RMB. As of the same date, the Bank had a total of 1,539 ATMs, of which 1,085 belonged to the Bank and the remaining to RSB. Each of the Bank's and RSB's branches is connected and networked to the Bank's IT systems and infrastructure located in the Bank's head office. The Bank plans to expand its branch network through the opening of new branches and the acquisition of small- to medium-sized banks with networks that will complement RCBC's existing network. In line with this strategy, on 13 February 2009, the Bank acquired JP Laurel Rural Bank. The Bank has endeavoured to transform the branches into effective sales and service channels that will focus on low-cost deposits generation, acquisition of retail customers, and referral of bank and other YGC products. Alternative development channels will be developed to migrate customer transactions from the counter, thereby freeing up branch personnel to concentrate on selling and more value-adding activities. In the medium-term, the Bank expects to boost other income by offering more fee-based services. The following table sets out details of the Bank's branches (excluding RSB) in the Philippines in operation as of the specified dates (not including extension offices):

	As of 31 December			As of 30 September
	2014	2015	2016	2017
Metro Manila (incl. Cainta and Taytay)	100	107	124	145
Luzon	83	73	76	75
Visayas	17	41	42	42
Mindanao	45	38	39	39
Total	**245**	**259**	**281**	301
ATMs	812	906	1,047	1,085

The following table sets out the details of RSB's branches in operation as of the specified dates:

	As of 31 December			As of 30 September
	2014	2015	2018	2017
Metro Manila (incl. Cainta and Taytay)	66	66	66	66
Luzon	52	52	54	56
Visayas	17	17	17	17
Mindanao	9	10	10	10
Total	**144**	**145**	**147**	149
ATMs	390	436	441	454

The Bank provides 24-hour banking services through its ATM facilities, which are located in various branches and at off-site locations, such as client sites to render payroll service, and shopping malls. Customers are given access to the ATM facilities through ATM cards, which are issued to checking and savings account holders. The Bank is a member of the Bancnet ATM consortium, which allows its customers to use the ATMs of other banks in the Philippines and similarly allows other banks' customers to use the Bank's ATM network.

Customer service is further improved through tight management and close monitoring of each branch. The RBG manages the branch network of the Bank, while RSB monitors its own branches. The Bank's management information system monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Branch managers, through their respective area and region heads, regularly communicate with the head of the RBG to discuss branch performance. In addition, each branch is subject to monitoring by the Bank's Money Laundering and Terrorist Financing Prevention Program Manual and a periodic compliance testing by the Bank's Regulatory Testing and Monitoring Division. Branches are also subject to a comprehensive audit conducted by the Bank's Internal Audit Group every 12 to 24 months.

Each of the Bank's branches has electronic security systems and armed guards, provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorised limits.

Alternative Delivery Channels

Internet and Mobile Banking

The Bank's internet banking platform was launched in 2007 under the name my RCBC Retail Internet Banking which was renamed as RCBC AccessOne in 2008. Currently, more than 300,000 clients are enrolled of which 20 per cent. are active users. In 2011, the Bank's various retail electronic banking channels were merged in one brand, RCBC AccessOne, which includes the following: RCBC AccessOne Internet Banking, RCBC AccessOne Mobile Banking and RCBC AccessOne eShop. These electronic channels introduced a new banking lifestyle for the Bank's customers by providing them with convenient access to their bank accounts anytime and anywhere.

RCBC AccessOne Mobile Banking is the Bank's version of online banking on mobile. This initiative allows account holders to access their accounts using their iPhone, iPad, iPod touch and/or Android device once they are registered with RCBC AccessOne Internet Banking. The applications may be downloaded from the Apple App Store and Google Play Store for free.

RCBC AccessOne eShop is the newest facility in RCBC AccessOne Internet Banking that allows customers to shop online through the website of its merchant partners and pay for purchases using their RCBC account. It is as good as paying cash and provides more flexibility and guarantees complete security.

A first in the local banking industry, the business managers of the Bank are also equipped with iPads together with an internal workbench that provides up-to-date information to facilitate sales processes and to further augment accessibility and distribution online.

In 2016, the Bank started to pilot a new banking solution, RCBC Cash Express, aimed at expanding the Bank's services to the underserved and remote areas in the country. RCBC Cash Express is the first and only mobile point of sale (**POS**) that provides the functionalities of an ATM. In addition to the cash out functionality, RCBC Cash Express can also process bills payment, funds transfer and cash in for RCBC MyWallet. The Bank plans to deploy RCBC Cash Express through partner merchants to provide more banking convenience to the Bank's customers who live in far flung areas, giving them more flexibility and accessibility when it comes to managing their finances.

In addition, the Bank increased its focus and presence in the digital space through the use of Twitter and Facebook to reach out to new customers and provide better service to existing clients. Community management and other social media guidelines were installed to ensure focus on providing better customer experience to the Bank's customers.

To service better the on-demand customers, the Bank also launched "Ask RC" on Facebook Messenger, the first bank-run chatbot in the Philippines. The Bank's chatbot provides information directly to both account holders and non-account holders in relation to their basic banking inquiries.

Prepaid Stored Value Cards

In February 2011, the Bank announced the Mercury Drug MyWallet Card, a pre-paid stored value card product in collaboration with Mercury Drug, a national pharmacy chain. The Mercury Drug

MyWallet Card, a variant of the Suki Card and RCBC MyWallet Card, is an ATM-sized card, co-branded with the Philippine's leading drugstore chain Mercury Drug to give both Mercury Drug and the Bank's customers a more convenient and safe way to shop, check their accounts and perform other transactions domestically and internationally, in a single ATM-sized card. The project has provided the Bank with an opportunity to expand its relationships with new customers, chiefly the patrons of Mercury Drug. The Mercury Drug MyWallet Card was the first prepaid card in the Philippines to use chip technology to allow cardholders to collect reward points with their purchases at Mercury Drug. The new card offers customers of Mercury Drug and the Bank a convenient way to shop, as the card acts as a stored value card that can be reloaded with cash via ATM or over the counter. Payment is debited automatically with every swipe in over 45,000 Bancnet POS merchants and over 100,000 Visa-accepting establishments in the Philippines. Payment can be debited from the Mercury Drug MyWallet Card in over 1,000 Mercury Drug outlets across the Philippines.

In January 2012, the Bank announced similar tie-ups with the Enchanted Kingdom theme park in Laguna and the logistics and remittance company LBC Express Inc. This signalled further co-branding efforts and enhanced services to make the RCBC MyWallet Card even more attractive to its users. Payment can be debited from, and credit added to, the RCBC MyWallet Card in over 1,200 LBC Express outlets across the Philippines. In April 2012, the Bank announced the new RCBC MyWallet-Super 8 Visa Card, a prepaid card payment product co-branded with Super 8 Grocery Warehouse, a grocery warehouse chain. Payment can be debited from the RCBC MyWallet-Super 8 Visa Card in 42 Super 8 outlets across the Philippines. In July 2013, the remittance company Palawan Pawnshop entered into an outsourcing agreement with the Bank and launched the Palawan Pawnshop-MyWallet Visa Card. This partnership opened the door for over 570,000 beneficiaries to directly receive their remittances through the card. In addition, greater accessibility is also achieved since any MyWallet cardholder can top up in over 1,000 Palawan Pawnshop outlets nationwide. In the same year, Goldilocks Bakeshop Inc., a leading bakeshop with over 300 stores nationwide issued their own MyWallet Visa Prepaid Cash Card powered by the Bank. In September 2014, the MyWallet-Telemoney Visa Prepaid Cash Card was introduced to cater to the remittance needs of OFWs, enabling OFWs to remit money to their loved ones through the Bank's over 100 tie-ups and subsidiaries abroad. In March 2015, the Bank and ABS-CBN Film Productions, Inc. (Star Cinema), a subsidiary of ABS-CBN Corporation, a leading information and entertainment multimedia conglomerate, launched the MyWallet-Star Kapamilya Visa Card. This enabled the Bank to tap into ABS-CBN's wide customer base. Cardholders are entitled to various freebies and discounts exclusively offered by ABS-CBN, including discounts to CDs/DVDs and concert tickets and VIP access to concerts, premiere nights and mall tours.

The Bank expects to continue to identify suitable retail partners for further expansion. The Bank hopes to utilise these partnerships to provide clients with convenient access to its products and services.

Call Centre

In October 2003, the Bank established a 24-hour call centre, which handles all inbound inquiries for current and savings accounts, as well as ATM, remittance and stock transfer services offered by the Bank. The Bank's call centre does not handle credit card products and services, which are handled by the Bankard call centre.

Global Transaction Banking

The Global Transaction Banking Group has (**GTBG**) two main businesses under its responsibility: Corporate Cash Management (**CCM**) and the Global Filipino Banking (**GFB**). With a broad range of customers, GTBG through the use of technology, local and international tie ups, the Bank's branch network, and through continuous innovations and improvements to its core services, is tasked to deliver the appropriate solutions to its various target markets.

Corporate Cash Management

CCM is tasked to create a whole suite of cash management solutions designed for a broad range of customers from SMEs to large conglomerates. CCM's services can be broadly classified under two main types: collections and disbursements. The main channel of delivery and information of its services is the Bank's corporate internet banking system.

As of 30 September 2017, CCM achieved a deposit growth of ₱ 8.2billion (U.S.$161 million). This translated to volume growth from 30 September 2016 of 7 per cent. for payments and 10 per cent. for receivables with a total of ₱156 billion of funds that flowed in through various cash management solutions.

In 2017, CCM launched the new corporate internet banking platform, the RCBC Online Corporate, an online facility for cash management services. With a more robust and efficient channel, the Bank expects the RCBC Online Corporate to support growth target for payments and for receivables

Global Filipino Banking

Global Filipino Banking, better known as RCBC TeleMoney, is the Bank's core remittance business. Through this segment, the Bank provides remittance services to the wide network of OFWs, both land-based and sea-based, and their beneficiaries in the Philippines.

RCBC TeleMoney is made available through the Bank's subsidiary office in Hong Kong and through tie-ups with banks or exchange/money transfer businesses in the United States of America, Canada, Guam, and the Middle East countries such as Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar, Oman, and Jordan. In addition, the Bank has tie-ups in the Asia Pacific region in countries such as Hong Kong, Japan, Malaysia, Brunei, Singapore and Australia as well as in the European region, specifically in the United Kingdom, Ireland, and Greece. RCBC TeleMoney provides a broad range of value-added services such as TeleCredit (credit to any Philippine bank account), TeleRemit (cash pick up from any branch of the Bank, RSB and RMB, or from other payout partners), TelePay (bills payment), TeleDoor2Door (cash delivery to the beneficiaries' doorstep) and food remittance (from Jollibee or Goldilocks).

The Bank has targeted its remittance operations as one of its key drivers of growth. RCBC TeleMoney has focused on marketing through its objective of revamping its brand name across retail and corporate clients in both traditional and digital channels by implementing various marketing efforts such as by providing discount schemes with tie-ups, offering insurance products, partnering with frequent flyer programmes, and ensuring social media awareness. The Bank also participates in pre-departure orientation seminars, a requirement for all departing OFWs, to promote financial literacy. Moreover, the Bank continuously strives to partner with local shipping and manning companies by providing customised payroll solution and services. The Bank, through RCBC TeleMoney, plans to continue to expand its reach by exploring tie-ups with international banks and exchange/money transfer centres to better cater to the unserved and underserved OFW clientele.

Marketing

The Bank operates separate product development and marketing divisions responsible for the marketing strategies, product conceptualisation and management of deposit-related products and services.

The Bank focused on the promotion of cash management, deposit generation, fee-based products and services, SME and consumer lending in its 2017 marketing campaign. The Marketing Group handles the overall branding strategy and publicity campaigns of the Bank and makes use of internal YGC and external advertising agencies.

Operations

The Operations Group is responsible for managing the Bank's frontline operations, various fulfilment functions as well as its management services. The Operations Group is composed of: a) the branch services support segment which covers the branch services, branch control and customer information management; b) the customer services and support segment which is responsible for the back office support for branches and other business units as well as customer care support; and c) the management services division which is in charge of the business systems and process review, analysis, support and documentation as well as user administration.

The Operations Group anchors its focus on customer experience management which aims to create long-lasting and value-creating relationships and partnerships with the Bank's customers. The Operations Group continuously seeks ways to improve its service performance through implementation of various initiatives which are focused on customers. These initiatives intend to deliver effective and efficient services to the Bank's customers as well as help the Bank achieve its strategies.

Information Technology Shared Services Group

The Bank's Information Technology Shared Services Group (**ITSSG**) is responsible for delivering IT services to the Bank and its subsidiaries such as RSB, RCBC Bankard and RCBC's international operations. ITSSG was established in 2008 to provide IT systems and infrastructure support at a lower operational cost than previously incurred by the individual member companies, while applying consistent policies, procedures and standards to strengthen IT governance across the Group. As of 30 September 2017, ITSSG had 258 employees.

The core objective of the Bank's IT programme is to use technology to transform the Bank's present business and operating models to be more adaptive, agile and customer-centric, and to improve the Bank's service to its clients by offering internet banking and electronic payment services and using technology to analyse customer information and train the Bank's employees.

In 2010, the Bank implemented the Guava Treasury System. Guava is a single integrated system covering the full functional requirements from front office dealing, to risk management and controls in the middle office, to processing and accounting in the back office. New workflow systems were implemented in the Bank's backroom lending operations to improve the operating efficiencies and allow the processing of higher volumes of transactions. ITSSG tapped opportunities on emerging technologies, such as the launch of a customer campaign through cloud computing, to support the Bank's customer referral and cross-selling programs.

In 2011, Oracle Financials was implemented by the Bank and new channels were enabled to reach more customers. The eTrust and foreign xchange portals, Phone-A-Loan and mobile banking systems for iOS phones and tablets were all launched in the second semester. The iCard system servicing MyWallet customers was upgraded. A new contact centre ticketing system was implemented to service the queries of customers.

In May 2012, the ITSSG successfully launched the Finacle Core Banking System simultaneously in all branches and head office units of the Bank and RSB, with no disruption in services to its clients. The new system enabled the Bank to create a more scalable core banking solution with a 24-7 system availability, thus enabling customers to bank anytime with no timezone constraint, streamline processes and innovative product launches and provide more choices to customers to suit their banking needs.

Improvements on existing systems were completed in 2013 such as the enhancement of the Telemoney Remittance System to enable real time interface and straight through processing, and revisions on customer analytics to improve cross-selling. The Credit Risk System, Corporate Risk Rating Model and various automated reconciliation and monitoring systems were also launched.

A new generation ATM switch solution was implemented by the Bank in October 2014. This system has enhanced the Bank's transaction processing capability and allowed the Bank to introduce card products that are tailor-fit for each customer segment.

In 2014, the Bank partnered with Infosys for a Finacle Wealth Management solution that offered a front-to-back office modular solution, providing comprehensive coverage, scalability and seamless integration. The 360-degree view of the clients' assets and behavioural profiles allowed the Wealth Management Group to craft relevant, competitive and highly personalised advice for its customers.

In 2015, the Bank launched Touch Q, a digitised queuing system, to reduce the waiting time of customers and shorten the processing of transactions and opening of accounts within the Bank's branches, thus promoting efficient service. TouchQ enables the Bank's customers to perform the following transactions: cash deposit, cheque deposit, cash withdrawal, cheque encashment, bills payment, fund transfer, account opening as well as other financial and non-financial transactions. Customers can also prepare their branch transactions in advance through the Touch Q Online Check-in (web portal or mobile app). Transactions prepared through the Touch Q Online Check-in are given priority queuing upon interfacing with the Touch Q machine at the Bank's branches. The partnership with G-Cash, which commenced in June 2015, provided additional services to the Bank's clients through its fund transfer, mobile access to funds and prepaid mobile phone reloading facilities. G-Cash allows the Bank's clients who are also Globe G-Cash subscribers to transfer funds from an RCBC account to his/her Globe G-Cash account via RCBC Online Banking. The innovative use of technology and excellence in project execution earned international recognition for the Bank as "Best Implementation of a Technology Solution" at the Wealthbriefingasia Singapore Awards in 2015.

In 2016, the Bank partnered with one of the world's leading ATM service providers, Fidelity National Information Services, Inc. (**FIS**), to leverage FIS' expertise in providing consistent and reliable ATM service to the Bank's clients and to enable the Bank to enrich its offering of card products and services.

In 2017, the Bank further enhanced the resiliency of its technology infrastructure through the virtualisation of its data centre infrastructure. The rationale for the virtualisation includes, among others, to reduce physical servers in data centres through the conversion of more than 250 physical servers to virtual servers and to increase resiliency against hardware failures. The RCBC Online Corporate mobile app was made available in 2017, enabling clients to approve banking transactions securely on an android or iOS device.

Intellectual Property

The Bank has not registered any of its intellectual property rights in the Intellectual Property Office at the Department of Trade and Industry of the Philippines. However, the Bank believes that this is a common practice in the banking industry in the Philippines generally. The Bank has not been the subject of any disputes relating to its intellectual property rights.

Legal Proceedings

In the opinion of the Bank, the suits and claims arising from the normal course of its operations that remain unsettled, if decided adversely, will not involve sums that would have a material effect on the Bank's financial position or operating results.

Global Steel Philippines

In October 2008, Global Steel Philippines (SPV-AMC), Inc. and Global Ispat Holdings (SPV-AMC), Inc. (collectively, **Global Steel**), which purchased the Iligan Plant assets of the NSC (**NSC Plant Assets**) from the Liquidator in 2004, initiated arbitration proceedings with the Singapore International Arbitration Centre (**SIAC**) seeking damages on account of the failure of the Liquidator and the Secured Creditors, including the Bank and RCBC Capital, to deliver the NSC Plant Assets free and clear from liens and encumbrance, purportedly depriving them of the opportunity to use the said assets to secure additional loans to fund the operations of the Iligan Plant and upgrade the same.

On 9 May 2012, the SIAC Arbitral Tribunal rendered a partial award in favour of Global Steel in the amounts of (a) U.S.$80 million, as and by way of lost opportunity to make profits and (b) ₱1,403 million, representing the value of the undelivered billet shop land measuring 3.4071 hectares (the **Lost Land Claim**). On appeal, and on 31 July 2014, the Singapore High Court set aside the partial award. On 31 March 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court but held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

The Bank's exposure is approximately ₱209,121.055.18 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of ₱485.5 million. The Bank has fully provisioned the receivable, which is classified in the books of the Bank as UDSCL with zero net book value.The Bank’s exposure, however, may be varied depending on whether the Iligan City’s assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries).

In an order dated 4 April 2017, the Makati Trial Court (a) nullified the public auction of the NSC Plant Assets by the City of Iligan, among others, (b) enjoined any and all real property tax collection actions until the decision dated 7 October 2011, which held that the NSC pre-closing taxes have been paid, is fully executed and NSC’s remaining tax liabilities are correctly computed. The LGU and the Iligan City Treasurer, among others, moved for reconsideration of this order.

Verotel Merchant Services

In 2011, Verotel Merchant Services B.V. (**VMS**), a Dutch corporation, and Verotel International Industries, Inc. (**VII**), a Philippine corporation civilly sued the Bank, Bankard, Inc. (**Bankard**), Grupo Mercarse Corp., CNP Worldwide, Inc. and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of U.S.$1.5 million, which the defendants allegedly misappropriated. VMS is an internet merchant providing online adult entertainment and online gambling, in addition to the sale of pharmaceuticals over the internet. The Bank/Bankard are due to file their Opening Brief on their Appeal with the California Court of Appeals.

RCBC Securities

In December 2011, RCBC Securities, Inc. (**RCBC Securities**) initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena (**Valbuena**), who carried out certain questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violations of Batas Pambasa Blg. 22 (**BP 22**), against the aforesaid former agent. On 17 November 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC ₱30 million, payable in five years, in settlement of all the claims against her, which RSEC refused. Valbuena’s appeal is now submitted for resolution, without prejudice to any settlement between the parties.

In May 2012, the Capital Markets Integrity Corporation (**CMIC**) conducted an investigation on the complaint filed by Francisco Ken Cortes against RSEC. In September 2014, Carlos S. Palanca IV (**Palanca**) and Cognatio Holdings, Inc. (**Cognatio**) likewise filed a complaint against RSEC with the CMIC, even as Cognatio’s earlier complaint dated 30 December 2013 against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission (**EIPD-SEC**) (the **SEC Cognatio Case**). In its Letter-Decision dated 4 December 2014, the CMIC dismissed the complaint on the ground of prescription and res judicata. Consequently, Palanca/Cognatio respectively appealed the case to the SEC En Banc, which granted the appeals of Palanca/Cognatio and reversed the CMIC’s decision. In turn, RSEC appealed the SEC En Banc’s reversal of the CMIC decision to the Court of Appeals. The case is now submitted for resolution by the Court of Appeals. The SEC Cognatio Case remains pending with the EIPD-SEC.

On 22 February 2013, Stephen Y. Ku (**Ku**) filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the **Makati Trial Court**), praying, among others, for the return of his shares of stock and cash payments which he claims to have turned over to Valbuena. On 20 May 2013, RSEC sought the dismissal of the complaint on the ground of non-payment of the correct filing fees and failure to state a case of action, which was, however, denied by the Makati Trial Court. Aggrieved, RSEC filed a Petition for Certiorari with the Court of Appeals on 22 November 2013, which was given due course. In the Decision dated 9 October 2014, the Court of Appeals sustained RSEC's position and ordered the dismissal of the complaint pending before the Makati Trial Court on the ground of lack of jurisdiction. In a Petition for Review dated 15 September 2015, Ku sought the reversal of the ruling of the Court of Appeals, and as an alternative, prayed to be allowed to re-file his Complaint sans docket fees. The case remains pending with the Supreme Court.

Poverty Eradication and Alleviation Certificates (PEACe) Bonds

In October 2011, the Bank filed a case before the Court of Tax Appeals questioning the 20 per cent. final withholding tax on PEACe Bonds by the BIR. The Bank subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury withheld ₱199 Million in October 2011 from the Bank on the interest on its PEACe bonds holdings. The amount was recognised as part of Loans and Receivables account in the statements of financial position.

On 13 January 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20 per cent. final withholding tax it withheld on the PEACe Bonds. On 16 March 2015, the Bank and RCAP filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification to exclude from the definition "deposit substitutes" the PEACe Bonds since there was only one lender at the primary market, and subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax. The Bank and RCAP also sought partial reconsideration to the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCAP/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed.

In a Resolution dated 5 October 2016, the Supreme Court partially granted the Bank and RCAP's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCAP which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes.

On 11 April 2017, the Bank received a copy of the Entry of Judgment stating, among others, that the Decision date 13 January 2015 and the Resolution dated 16 August 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Bank and RCAP, became final and executory on 20 October 2016.

Applicability of RR 4-2011

On 15 March 2011, the Bureau of Internal Revenue issued Revenue Regulations No. 4-2011 (**RR 4-2011**) which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU and within FCDU.

On 6 April 2015, the Bank and other member-banks of the Bankers Association of the Philippines (**BAP**) (**Petitioners**), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (**TRO**) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (**Makati Trial Court**), wherein the Petitioners assailed the validity of RR 4-2011 on the ground, among others, that (a) RR 4-2011 violates the Petitioners' substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation.

On 8 April 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on 27 April 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Bank and other BAP member banks, including the issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved. On 10 June 2015, Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned. The pre-trial conference of the case began on 2 August 2016.

Others

Alleged Unauthorised Transfer of Funds – Bank of Bangladesh

In February 2016, there was an alleged unauthorised transfer of funds from the Bank of Bangladesh to four accounts in the Bank, which were eventually transferred to various accounts outside of the Bank. In August 2016, the Monetary Board approved the imposition of supervisory action on the Bank to pay the amount of ₱1.0 billion in relation to the completed special examination. There may be other cases arising from these events. The Bank has fully recognised in the Consolidated Statement of Income the ₱1.0 billion supervisory action as part of Miscellaneous Expenses, and has paid in full this penalty ahead of the August 2017 deadline set by the BSP. The Bank's payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations.

Capital Expenditure

The Bank's capital expenditures as of 30 September 2017 was ₱1.0 billion (U.S.$0.02 billion). The Bank does not expect any material capital expenditures for 2018. Capital expenditures for the next two years will primarily be investments in technology for implementing upgrades and improvements to its businesses and operations as described in the section entitled "*Information Technology Shared Services Group*" above.

Subsidiaries

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking related companies or "allied undertakings". Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies and financial institutions catering to SMEs.

A publicly-listed universal or commercial bank in the Philippines may own 100 per cent. of the voting stock of only one other commercial bank. Such universal or commercial bank may only have ownership in additional commercial banks as a minority shareholder. A universal bank may also own up to 100 per cent. of the voting stock of thrift banks and rural banks, and generally up to 100 per cent. of other financial and non-financial allied undertakings. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50 per cent. of the net worth of the bank, subject to the further requirement that the equity investment in one enterprise shall not exceed 25 per cent. of the net worth of the bank.

The Bank's direct and indirect subsidiaries are as follows:

RCBC Savings Bank, Inc.

RSB, a wholly-owned subsidiary of the Bank, was established in 1996 as the Bank's consumer banking arm. RSB provides deposit products, real estate loans, auto loans and personal loans. As of 30 September 2017, RSB had 149 business centres and five extension offices nationwide. For the nine months ended 30 September 2017, RSB's net income amounted to ₱972.8 million (U.S.$19.1 million) compared to ₱759.6 million in 30 September 2016.

RCBC Capital Corporation

RCBC Capital, a 99.96 per cent. owned subsidiary of the Bank, was established in 1974. RCBC Capital is the investment banking subsidiary of the Bank. It offers a complete range of investment banking and financial consultancy services which include (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution; (ii) the syndication of foreign currency or Peso loans; and (iii) financial advisory services. For the nine months ended 30 September 2017, RCBC Capital's net income amounted to ₱542.9 million (U.S.$10.7 million) compared to ₱358.1 million in 30 September 2016.

RCBC Securities, Inc.

RCBC Securities, a wholly-owned subsidiary of RCBC Capital, is engaged in the electronic and traditional trading of listed securities and in providing corporate and market research. For the nine months ended September 30 2017, RCBC Securities' net income amounted to ₱18.2 million (U.S.$0.4 million) as compared to ₱18.1 million in 30 September 2016.

RCBC Bankard Services Corporation

RCBC Bankard, a wholly owned subsidiary of RCBC Capital, is engaged in providing services to the credit card business of the Bank. Until December 2006, the Bank conducted its credit card operations through Bankard. Beginning in 2007, Bankard has serviced the credit card business and operations of the Bank. The Board of Directors, in its special meeting held on 18 October 2013, approved the sale to Philippine Business Bank Trust and Investment Centre on behalf of various clients the Bank's and RCBC Capital's 90 per cent. stake in Bankard, Inc. As part of the condition for the sale, all existing credit card operations of Bankard, Inc. was assigned and absorbed indirectly by the Bank, though RCBC Capital.

For the nine months ended 30 September 2017, RCBC Bankard's net income amounted to ₱106.1 million (U.S.$2.1 million) compared to ₱55.3 million in 30 September 2016.

RCBC Forex Brokers Corporation

RCBC Forex Brokers Corporation (**RCBC Forex**), a wholly-owned subsidiary of the Bank, was incorporated in 1998. RCBC Forex is engaged in dealing and brokering currencies in foreign exchange contracts with local and international clients. For the nine months ended 30 September 2017, RCBC Forex's net income amounted to ₱2.8 million (U.S.$0.1 million) compared to ₱34.7 million in 30 September 2016.

RCBC International Finance Limited

RCBC International Finance Limited (**RCBC IFL**), a 100 wholly-owned subsidiary of the Bank, was established in 1979 and is the Bank's overseas subsidiary in Hong Kong. RCBC IFL is primarily engaged in the remittance business. For the nine months ended 30 September 2017, RCBC IFL's net loss amounted to ₱5.9 million (U.S.$0.1 million) compared to ₱0.2 million income in 30 September 2016. RCBC Investment Limited, wholly-owned subsidiary of RCBC IFL, is a Hong Kong company established in 1990 primarily engaged in the remittance business.

Merchants Savings and Loan Association Inc.

Merchant Savings and Loan Association Inc., whose trade name is RMB, a 98.03 per cent. owned subsidiary of the Bank was acquired by the Bank on 15 May 2008 to engage in micro-financing and development of small businesses. As of 30 September 2017, RMB had 18 microfinance lending branches with operations in Southern Luzon and Mindanao. Its head office and head office branch was moved from Makati City to Davao City in April 2011. For the nine months ended 30 September 2017, RMB's net loss amounted to ₱0.6 million (U.S.$0.0 million) compared to ₱7.2 million net loss in 30 September 2016.

RCBC-JPL Holding Company, Inc.

RCBC JPL Holding Company, Inc. (**RCBC-JPL**), a 99.41 per cent. owned subsidiary of the Bank formed in 2012, is primarily engaged in the disposition of the assets of its predecessor, Pres. Jose P. Laurel Rural Bank, Inc. which the Bank acquired in February 1999. For the nine months ended 30 September 2017, RCBC-JPL's net loss amounted to ₱5.5 million (U.S.$0.1 million) compared to ₱0.9 million net loss in 30 September 2016.

Niyog Property Holdings, Inc.

Niyog Property Holdings, Inc. (**NPHI**), a wholly owned subsidiary of the Bank (48.11 per cent. owned by the Bank and 51.89 per cent. indirectly owned through RSB), was incorporated on 13 September 2005 to purchase, subscribe for or otherwise dispose of real and personal property of every kind and description but not as an investment company. On 25 May 2009, the Bank approved the reclassification of its investment in NPHI from Investment Property account to Investments in Subsidiaries and Associates account in accordance with BSP Circular No. 520. This resulted in the consolidation of NPHI's assets, liabilities and net income in RCBC's financial statements as of and for year ended 31 December 2009. For the nine months ended 30 September 2017, NPHI's net income amounted to ₱20.7 million (U.S.$0.4 million) compared to ₱9.7 million in 30 September 2016.

RCBC Leasing and Finance Corporation

RCBC Leasing and Finance Corporation (**RCBC LFC**), a 97.8 per cent. owned subsidiary of the Bank, was acquired by the Bank on 28 March 2012. RCBC LFC is a non-bank financial institution with a quasi-banking licence granted by the BSP, serving corporate and commercial clients and consumers in the financing industry. Its wholly-owned subsidiary, RCBC Rental Corporation, is in the business of renting and leasing equipment and machinery. For the nine months ended 30 September 2017, RCBC LFC's net income amounted to ₱70.6 million (U.S.$1.4 million) compared to ₱53.8 million in 30 September 2016.

Additionally, as a universal bank, the Bank has equity investments in various industries which are vital to the country's economic growth and which also serve the purpose of diversifying the Bank's sources of income. Among these are Honda Cars Philippines, Inc., Isuzu Philippines Corporation, and Pilipinas Shell Petroleum Corporation.

RISK MANAGEMENT AND COMPLIANCE

The Bank is exposed to risks that are particular 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 that are established to address these risks.

A committee system is a fundamental part of the Bank's process of managing risk. The three committees of the Board of Directors relevant in this context are:

- the Executive Committee has the power to act and pass upon such matters as the Board may entrust to it for action in between Board meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely recognition and resolution of impaired assets;

- the Risk Oversight Committee (**ROC**) which meets monthly, carries out the Board of Directors' oversight responsibility for group risk management, covering credit, market and operational risks under Pillar 1 of the Basel II framework, as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process. Risk limits are reviewed and approved by the ROC;

- the Audit and Compliance Committee oversees the Bank's financial reporting and control, and internal and external audit functions. It is responsible for the establishment of the Bank's internal audit department and for the appointment of the Bank's internal auditor and independent external auditors. It is also responsible for ensuring that a review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management, is conducted at least annually; and

- the AML Committee assists the Board in carrying out its mandate to fully comply with the AMLA, as amended, its revised implementing rules and regulations as well as the AML regulations under the Manual of Regulations for Banks and ensures that oversight on the Bank's compliance management is adequate. It oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program.

Two senior management committees also provide a regular forum, at a lower-level, to take up risk issues:

- the Asset and Liability Committee (**ALCO**), chaired by the Treasurer of the Bank with the participation of the Chief Executive Officer (**CEO**) and key business and support unit heads, including the President of the Bank's major subsidiary, RSB, meets weekly to appraise market trends and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk and trading and investment portfolio decisions. It sets prices and rates for various asset and liability and trading products, in light of funding costs, competition and other market conditions. It also receives confirmation that market risk limits (as described below) are not breached, or if breached, provides guidance on the handling of relevant risk exposure, between ROC meetings; and

- the Credit and Collection Committee, chaired by the CEO and composed of the heads of credit risk-taking business units and the head of credit risk management, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

The Bank has established the following risk management functions to ensure Bank-wide and consistent implementation of the risk identification, measurement and/or assessment, mitigation and monitoring objectives are pursued via practices commensurate with risk profiles:

- Credit Management Group (**CMG**);
- Business Risk Group (**BRG**); and
- Operational Risk Management Group (**ORMG**).

CMG, BRG, and ORMG are independent of all risk-taking business segments and report directly to the ROC. CMG participates in the Credit and Collection Committee, while BRG participates in ALCO meetings.

Liquidity Risk Management

Liquidity risk is the potential insufficiency of funds available to adequately 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'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 main sources of the Bank's funding are capital, core deposits from retail and commercial clients and wholesale deposits. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. The Bank's liquidity policies and procedures are set out in its Funding and Liquidity Plan.

As of 30 September 2017, 29.4 per cent. of the Bank's total portfolio was represented by loans with remaining maturities of one year or less. Of the Bank's ₱68.1 billion total portfolio of investment securities as of 30 September 2017, ₱9.8 billion (U.S.$192.9 million), or 14.3 per cent., was invested in investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily Government treasury bills, fixed rate treasury notes and floating rate treasury notes, and foreign currency denominated bonds issued by the Government.

Amounts due from the BSP and from other banks and other resources accounted for 11.1 per cent. and 3.4 per cent., respectively, of the Bank's total resources as of 30 September 2017. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The primary responsibility of managing liquidity risk lies with the ALCO, which disseminates its liquidity strategy across all business units within the Bank that conduct activities that impact liquidity. ALCO's primary responsibilities include:

- ensuring that the Bank and its legal vehicles maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements;
- building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities (the structural gap);
- managing the balance sheet and ensuring that the strategies are in accordance with adequate liquidity, capital and diversified funding;
- determining asset/liability pricing consistent with the strategies for the balance sheet; diversifying the funding of each legal vehicle of the Bank by source, maturity, instrument and currency;

- implementing policies of the Board of Directors on all issues that affect capital, funding or liquidity; and

- informing the Board of Directors regularly of the liquidity situation of the Bank and informing the Board of Directors immediately if there are any material changes in the Bank's current or prospective liquidity position.

ALCO measures liquidity risk by assessing all of its cash inflows against its outflows to identify the potential for any net shortfalls going forward, including funding requirements for off-balance-sheet commitments. The Bank's core measure of liquidity, the maximum cumulative outflow is defined as the amount of prospective funding that the Bank will require at pre-specified future dates in normal operating requirements and measures the liquidity gap between maturing liabilities and assets. The maximum cumulative outflow limit is proposed by the Treasurer and BRG, reviewed by the Risk Oversight Committee and approved by the Board.

To ensure that the Bank has sufficient liquidity at all times, the Bank's Treasurer and BRG formulate a contingency plan using extreme scenarios of adverse liquidity and evaluates the Bank's ability to withstand these prolonged scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amounts of funds (such as unused credit facilities) the Bank has available to it and the scenarios under which it could use them.

The following tables set forth the asset/liability gap position for the Bank's operations on a consolidated basis as of 30 September 2017:

(in millions ₱)	Less than one month	One to three months	Three months to one year	Beyond one year	Non-Maturity	Total
Resources						
Cash (COCI)	-	-	-	-	11,729	11,729
Placements (DFBSP & Other Banks)	29,521	-	18	104	51,336	81,049
Investments (Invs. Sec. & Equity Inv)	5,566	2,153	2,031	53,913	4,428	68,091
Loans (L & R)	14,466	17,611	54,221	186,193	66,608	339,099
Other Resources	5,344	243	590	611	17,629	24,417
Total Resources	**54,897**	**20,007**	**56,860**	**240,821**	**151,730**	**524,385**
Liabilities & Capital Funds						
Deposit Liabilities	41,430	13,014	14,049	13,924	292,7 20	377,137
Demand Deposits	5,593	1,501	2,252	-	43,068	52,414
Savings Deposits	17,482	3,162	4,744	-	143,699	169,087
Term Deposits	18,355	8,351	7,053	13,924	107,953	155,636
Bills Payable and Due To Other Banks	1,231	673	16,973	9,328	774	28,979
Bonds Payable	-	-	-	28,552	-	28,552
Subordinated Debt	-	-	-	9,964	-	9,964
Other Liabilities	8,304	17	72	-	8,872	17,266
Total Liabilities	**50,965**	**13,705**	**31,094**	**61,769**	**304,366**	**461,898**
Capital Funds	**-**	**-**	**-**	**-**	**65,051**	**65,051**
Total Liabilities and Capital Funds	**50,965**	**13,704**	**31,094**	**61,768**	**366,854**	**524,386**
Periodic Gap	**3,905**	**6,300**	**25,758**	**179,052**	**(215,123)**	
Cumulative Gap	**3,905**	**10,205**	**35,963**	**462,896**	**(108)**	

Interest Rate Risk Management

The Bank follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. The Bank's risk measurement system incorporates different risk factors for different categories of instruments (e.g. fixed income or money market) within each currency where the Bank holds interest rate sensitive positions.

ALCO meets at least weekly to set rates for various asset and liability and trading products. ALCO considers funding costs, market conditions, transaction volume, competitor's rates, among others, when pricing interest rates, foreign exchange and fee based products.

A majority of the Bank's total loan portfolio is on a floating rate based on an internal cost of funds. The spread varies for various types of loans and credit quality. Loan rates and the bulk of the deposit liabilities which are in special savings accounts are reset every 30 to 90 days. Hence, exposure to interest rate fluctuations is significantly reduced. No interest is paid on nearly all current accounts, while regular savings accounts earn a fixed rate of 0.15 per cent. per annum.

The Bank employs a "gap analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatch between the amounts of interest earning assets and interest bearing liabilities which would re-price, during that period. If there is a positive gap, there is asset sensitivity, which generally means that an increase in the interest rates would have a positive effect on the Bank's net interest income. If there is a negative gap, this generally means that an increase in the interest rates would have a negative effect on the Bank's net interest income.

Credit Risk Management

Credit risk is the risk that the borrower, issuer or counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives 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.

CMG assists senior management: (a) to develop credit policies; (b) to establish risk concentration limits accepted at the level of the single borrower, related borrower group, industry segments, and sovereign jurisdiction; and, (c) to continuously monitor the actual credit risk portfolio from the perspective of those limits and other risk management objectives. In performing these functions, CMG works hand-in-hand with the business units and with the Corporate Planning Group.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) business centre managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment of large corporate and middle-market borrowers by CMG, summarised into a borrower risk rating, is provided as input to the credit decision-making process; and (d) borrower credit analysis is performed at origination and at least annually thereafter.

The Bank primarily uses an internal credit risk rating system (ICRRS) developed by Standard & Poor's to determine creditworthiness. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Default probabilities likewise map to an internal "PD" scale, which is updated periodically. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per BSP Manual of Regulations for Banks, i.e., Substandard, Doubtful or Loss.

Impairment provisions are recognised for losses that have been incurred at the end of the reporting period following IAS39 standards. The Bank subjects all loans and receivables with a principal balance of at least ₱15 million, and exposures rated BB+ to lower than CCC to individual impairment testing.

Significant changes in the economy or in particular industry segments that represent a concentration in the Bank's portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts its exposure to such credit risk, as necessary.

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 Parent Bank uses its ICRRS to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

Only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts which were rated BB+ to lower than CCC and accounts rated as Especially Mentioned, Substandard, Doubtful and Loss. Significant amount is at least ₱0.5 million for sales contract receivables and ₱15 million for all other loan and receivable accounts.

Credit Risk Assessment

In the process of applying the Bank's ICRRS, the Bank analyses the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC*	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
Especially Mentioned.............	Loans with potential weaknesses
Substandard	Loans past due for over 90 days
Doubtful	Past due clean loans previously classified as Substandard without at least 20 per cent. repayment during the succeeding 12 months
Loss	Loans considered absolutely uncollectible

Note: *Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.

The foregoing ICRRS was established by the Bank during the first quarter of 2013 in congruence and with reference to the credit risk rating methodology used by S&P in measuring the creditworthiness of an individual debt issue which is still performing or current in status.

The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

Credit Approval Process

The Bank has three Credit Committees for loans, two under CBG (one for each of Corporate Accounts and SMEs) and one under the Treasury Group. The Credit Committees screen and evaluate credit proposals originating from lending units before these are presented to the approving bodies and are in turn served by support units which monitor and review the Bank's credit exposures. The lending units evaluate the borrower and the purpose of the loan and negotiate the terms of the loan with the borrower. At the post-approval stage, lending officers conduct regular client calls in order to monitor the account's performance. Borrowers are required to submit on a regular basis their interim and audited financial statements to monitor the borrowers' financial viability. Credit reviews on borrowers are also conducted regularly to assess the creditworthiness of accounts and their compliance with the Bank's policies and procedures. Movements in the total loan portfolio and exposures to various industries are also regularly monitored.

Credit Approval Authority

The authority to extend credit or commit the Bank to extend credit rests on the Board, which has delegated its authority, subject to certain approval limits, to certain designated credit authorities. All substantial transactions are subject to review and approval by the Executive Committee. In addition, a clear separation of duties exists between the officers recommending credit-related transactions and those who authorise them.

For transactions involving the Bank's DOSRI, approval by the Board is required for credit/other accommodations regardless of the amounts involved. For non-DOSRI, the Bank has a hierarchy of delegated approving authority based on the amount of the credit facility involved, security arrangement or collateral position, internal credit risk rating, and/or account status. The aggregate amount of the credit/other accommodations (i.e., net of facilities secured by cash collateral) will determine the appropriate credit committee or authority.

OFW Remittances

Different approval authority levels and limits apply to the establishment of lines for releasing remittance funds to TeleMoney couriers, depending on the type of collateral offered.

Consumer Loans

The approval authority levels and limits differ among the different consumer loan products under RSB. Approval authority of section heads and all other lower officers pertain only to the specific loan products assigned. Approval limits range from a minimum of ₱0.075 million to below ₱10.0 million, with approving authorities ranging from the credit evaluation officer up to the President. For amounts of ₱10.0 million and above, approval is elevated to the bank's Credit and Collection Committee and the Executive Committee. Approvals should conform to the credit policies set forth for the respective product line.

Credit Monitoring and Review Process

It is the Bank's policy that credit performance be systematically monitored by staff other than the officer who initially reviewed the transaction. The credit review process also involves conducting periodic internal evaluations of credit risk processes to determine that credit activities are in compliance with the Bank's credit policies and procedures, credits are authorised within the guidelines established by the Bank's Board and the quality and value of individual credits are being accurately reported to senior management.

The Bank performs an account profitability analysis on borrowers when loans are originated and renewed or more frequently for important relationships. The methods of profitability analysis used in the account profitability analyses include return on funds employed, which intends to measure returns on risk assets taking into consideration the capital charge of the risk asset.

As part of its loan portfolio management, the Bank closely monitors past due accounts and their developments. On a monthly basis, the Credit Portfolio Risk Department prepares an Aging of Past Due report, which contains the principal past dues outstanding on a per account basis, the aging of the past due and the latest status of the account. On a weekly basis, newly booked past due accounts and potential past due accounts are presented to the Bank's Executive Committee for proactive management of the account. Unfavourable information and developments on a borrower or business environment are immediately processed for the purpose of instituting early remedial measures and renewed relationship strategies.

The Bank policies provide for stress testing to determine the potential for extreme conditions to affect both individual credits and the sectors of the credit portfolios. The three areas of focus for stress testing are: (a) economic or industry down-turns; (b) market-risk events; and (c) liquidity conditions. Stress-test analysis also includes contingency plans regarding the actions management may take given certain scenarios, such as hedging against outcome or reducing the size of the portfolio. Credit risk officers and risk managers document and report to the Board the output of the tests.

Market Risk Management

The Bank considers market risk as risk resulting from adverse movements in the level or volatility of market rates or prices which will affect the Bank's financial condition. The primary determinant of market risk is the volatility of the relevant market for a business line. The market risks of the bank are: (a) foreign exchange rates; (b) interest rates; and (c) equity prices.

To manage market risk inherent in the Bank's portfolio, the Bank employs a process of identifying, analysing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- ***Nominal Position*** — an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- ***Dollar Value of 01*** — an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Bank's risk appetite.

- ***Value at Risk*** (**VaR**) — an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors; and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99 per cent. confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book assets and liabilities). Foreign Exchange position VaR uses a one- day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure results remain consistent with the expectations based on the chosen statistical confidence level. While the Bank and RSB use VaR as an important tool for measuring market risk, it is cognisant of its limitations, notably the following:

  - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

- VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

- The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

- VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99 per cent. VaR implies that losses can exceed VaR 1 per cent. of the time.

- In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

- VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- ***Earnings-at-Risk*** — more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Bank employs a gap analysis to measure the interest rate sensitivity of its statement of financial position (local and foreign currencies). As of a given reporting date, the gap analysis measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Bank's net interest income. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Bank's net interest income. The rate movements assumed for measuring EaR are consistent with a 99 per cent. confidence level with respect to historical rate volatility, assuming a one-year holding period.

- ***Capital-at-Risk*** — BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Bank's economic value. The estimate therefore must consider the fair valuation effect of rate changes on non- trading positions. These include both those positions with fair value changes against profit or loss, as well as those with fair value changes booked directly against capital funds (e.g., available-for-sale securities); but exclude those whose fair value changes are considered substantially offset — in an economic, if not accounting, sense — by fair value changes of another statement of financial position item. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Bank sets its CaR limit as a percentage of the capital funds in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- ***Loss Limit*** — represents a ceiling on accumulated month-to-date losses. For trading positions, a management action trigger (**MAT**) is also usually defined to be at 50 per cent. of the Loss Limit. When management action trigger is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- ***Product Limit*** — the nominal position exposure for certain specific financial instruments is established.

Stress testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations.

The Bank's stress testing techniques include:

- ***Simple Sensitivity Tests*** — determine the impact on income of movements of one or more market risk factors using set percentage changes;

- ***Scenario Analysis*** — describes scenarios (based on historical or hypothetical scenarios) that the Bank's risk managers deem may happen in the foreseeable future and the consequences thereof; and

- ***Maximum Loss Approach*** — uses a combination of events that risk managers believe would be most damaging to the Bank's portfolio.

Foreign Currency Risk Management

The BSP has numerous regulations related to foreign currency management. The Bank complies with all of these, including limits on foreign currency exposures, liquidity reserves and types of currencies allowed for trading.

The Bank’s risk measurement system incorporates risk factors for each different foreign currency in which the Bank’s positions are determined. Foreign exchange positions are generally classified as trading positions and are marked-to-market at least daily. Foreign exchange forwards are classified at inception as either “trading” (outright open positions without an offsetting foreign exchange contract) or “hedging” (positions with an offsetting foreign exchange contract, generally part of a foreign exchange swap transaction). Each classification has a separate profit and loss accounting methodology assigned: net present value marked-to-market for trading positions and straight-line allocation for hedging positions.

In addition, the Bank regularly calculates VaR for each currency position. As of 30 September 2017, the Bank’s foreign currency VaR was U.S.$194,000. A system of loss limits and MAT is utilised to control losses. Foreign exchange related products are also discussed and pricing policies set by the ALCO.

The Bank’s Treasurer has the ultimate responsibility over the Bank’s foreign exchange risk and can rebalance the allocation of foreign exchange risks among specific currencies and strategies according to the overall nature of foreign exchange exposures approved by management.

Operational Risk Management

Operational Risk is the risk of loss resulting from human factors, inadequate or failed internal processes and systems, or external events. The definition includes legal risk, but excludes strategic and reputational risks. Operational risk is inherent in the Bank’s business activities, including outsourced business processes.

The Bank has a formal Operational Risk Management Framework (**ORMF**) approved by the Board which defines the structure and processes for identifying, measuring, monitoring, controlling and reporting operational risks.

The Risk Governance structure follows the three lines of defence model: (1) at first line of defence, business line management and personnel are accountable on a day-to-day basis for identifying and assessing, monitoring and managing all the operational risks within their units; (2) at the second line of defence, the Operational Risk Management Group provides an independent, integrated management of operational risk across the Bank, monitoring adherence to the ORMF and advising and challenging operational risk assessments and mitigation; and (3) at the third line of defence, through a risk-based approach, Internal Audit Group is responsible for the independent review of the effectiveness of the Bank’s operational risk controls.

Operational Controls and Procedures in Branches

The Bank employs several enhanced operational control measures and procedures to mitigate risks in its branches. These include the segregation of duties such that no individual has complete authority and responsibility for handling all phases of any transaction. Branches are now positioned as servicing channels with greater focus on process control, compliance, and customer service. Control layers have been set in place to ensure that proper due diligence is performed for client onboarding, client records updating, and transactions processing. An Approval Authorities Manual has been issued to identify approving authorities and approval limits of officers in the bank. The necessary review and scrutiny of a transaction must be performed by an authorized associate of a branch or operating unit before proceeding with the processing of transactions. In addition, the use of Bank's operations system is limited to authorized employees. Reconciliation and balancing procedures are done regularly to establish the accuracy of branch records and establish employee accountability.

The Bank also has security policies and procedures which are currently being implemented for the purpose of attaining safety and security of both the Bank and its personnel. These include: (a) personnel security, with the objective of ensuring that employees of the bank are capable, reliable, trustworthy and loyal, in consonance with the Bank's hiring policies, and to provide guidelines with the screening and training of agency personnel to become more effective in their duties; (b) documents and information security, with the objective of determining the security to be applied to the hardware/software of the Bank depending on its classification such as critical, confidential, internal use and unclassified; (c) information and system availability to ensure that a system or process is in place for identifying those assets that would severely affect the operation of the Bank if they become unavailable; and (d) physical security, which includes structural barriers such as fences, lights, doors, windows, vault walls and doors.

Branch operations are governed by policy guidelines and procedures that are formulated to guide the officers and staff in the process of initiating day-to-day banking transactions with the objective of providing more value-added services and better banking experience to our clients in the most efficient way possible. Compliance reviews and regular audit examinations are also being done to ensure that the Bank's policies and procedures are properly implemented.

RCBC Online-Corporate

RCBC Online-Corporate (**ROC**) is the Bank's corporate banking channel that lets corporate clients manage their RCBC corporate accounts online. Through ROC, clients can manage their corporate accounts more efficiently and conveniently by allowing clients to do online balance inquiry, view transaction history, initiate funds transfers and payments and send requests and instructions to the Bank. Enrolment in ROC requires the establishment of an active account compliant with the Bank’s KYC standards. ROC’s added security feature is the one-time password, a secondary password transmitted either through email or SMS for the user to encode in addition to its login credentials.

Operational Controls and Procedures in Treasury

The Bank has implemented pre-trade control policies and procedures, which include ensuring that: (a) dealers are aware of established dealing conventions; (b) operating systems have been tested and approved for production; (c) the necessary authorities have approved dealing limits; and (d) counterparties are identified and validated and required documentation is in place.

The Bank’s front office treasury policies and controls include ensuring that delegated authority is issued to each dealer, reconciling dealers’ positions against the Bank’s accounting records, monitoring credit exposure and market risk limits, entering trades and transactions into the system in a timely and accurate manner and checking dealing system information on a spot basis. Treasury’s Operations Department reviews trade information in the treasury system and deal tickets to ensure that deals are recorded and input properly. Treasury’s Operations Department also has the responsibility of investigating and resolving inconsistencies in the confirmation process.

Treasury positions are reported to ALCO and these positions are compared to the approved limits. The age of securities positions is monitored from the trade's inception. Because of differing valuation standards, the Bank places controls on internal transfers of securities from their accounts as inception to other classifications.

Non-standard transactions not booked routinely in the treasury system, are subject to special procedures. A business unit head of the unit entering the transaction must verify that all necessary systems required to book, value and measure exposure of the transaction are in place or can be developed in a timely manner.

The Treasury Operations Department undertakes the settlement of funds and securities and follows procedures and controls designed to minimise operational risk, including procedures concerning confirmation matching of payments from counterparties, dealing with confirmation exceptions and reporting settlement exposures and payment failures. The Treasury Operations Department reports all projected settlement exposures as well as any payment failures to the credit officers in charge of the counterparty or customer relationship.

In addition, the Bank has implemented operational control policies for accounting and financial control to ensure that transactions are properly recorded in the balance sheet and income statement. These include reconciliation of treasury accounts with the Oracle Enterprise GL. There is an independent regular mark-to-market process that values portfolio positions at current prices/levels that are provided through the live price feed of Reuters or Bloomberg and from other independent third party sources. These generate the estimated mark-to-market of the investment portfolios or positions independent of the front and back office.

Audit and Compliance Committee

The Audit and Compliance Committee (**ACC**) is responsible for overseeing senior management in establishing and maintaining an adequate, effective and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiencies and effectiveness of operations and safeguarding assets.

The ACC provides oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. It shall be responsible for the setting up of the internal audit department and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the ACC. In cases of appointment or dismissal of external auditors, it is encouraged that the decision be made only by independent and non-executive ACC members. The ACC monitors and evaluates the adequacy and effectiveness of the internal control system.

The ACC reviews and approves the audit scope and frequency, receives key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors.

The ACC has explicit 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 ACC shall ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, is conducted at least annually.

The ACC oversees the compliance program, and ensures that compliance issues are expeditiously resolved. Ensuring that bank personnel and affiliated parties adhere to the pre-defined compliance standards of the Bank rest collectively with senior management, of which the Chief Compliance Officer (**CCO**) is the lead operating officer on compliance. The senior management through the CCO shall periodically report to the Committee matters that affect the design and implementation of the compliance program. Any changes, updates and amendments to the compliance program must be approved by the Board. However, any material breaches of the compliance program shall be reported to and promptly addressed by the CCO within the mechanisms defined by the compliance manual.

Anti-Money Laundering Controls

The AMLA was passed in September 2001. It was subsequently amended by Republic Act Nos. 9194, 10167 and 10365 in March 2003, June 2012 and February 2013, respectively. The Terrorism Financing Prevention and Suppression Act (Republic Act No. 10168) was passed in June 2012.

Under the AMLA, as amended, the Group is required to submit covered transaction reports. Covered transaction reports involve single transactions in cash or other equivalent monetary instruments in excess of ₱500,000.00 within one banking day. The Group is also required to submit suspicious transaction reports to the AMLC. Suspicious transaction reports are reports involving transactions where specific circumstances exist and there are reasonable grounds to believe that the transactions are suspicious.

The AMLA requires the Group to safe keep, as long as the account exists, all the know your customer documents involving its clients, including 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 know your customer 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 27 January 2011, BSP Circular No. 706 was implemented, superseding prior rules and regulations on AMLA. The circular requires the Group to adopt a comprehensive and risk-based money laundering and terrorist financing prevention program designed according to the covered institution's corporate structure and risk profile. In compliance with the risk-based approach mandated by the circular, the Group 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.

The Group's money laundering and terrorist financing prevention program 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 Group head's approval is necessary.

The AML and Fraud Management Division is responsible for monitoring, analysis, disposition and investigation of AML and fraud alerts, and monitoring of filing of reports, i.e., CTRs, STRs, RCLs, while the Testing and Monitoring Division conducts regular compliance testing of the head office and business units. Results of its AML and CTF activities and compliance monitoring are regularly reported to the ACC to ensure that all AML and CFT matters are appropriately escalated.

In 2016, the Group instituted reforms aimed to reinforce its AML and CTF controls. The Group 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 Group has embarked on a re-engineering of its settlements and business centre operations, and the consolidation and strengthening of its fraud management framework.

Legal Risk Management

Changes in laws and regulations could adversely affect the Bank. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing on collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimise its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorised and consulting internal and external legal advisers.

Regulatory Risk Management

Regulatory risks refer to the risks that may erode the franchise value of the Bank such as the risk of legal and regulatory sanctions, material financial loss or loss to reputation the Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organisation standards and codes of conduct applicable to its activities. It may also arise from failure to manage conflict of interest, treat customers fairly or effectively manage risks arising from money laundering and terrorist financing activities. Integral to the Bank's compliance risk management system is the establishment of a compliance function. The compliance function is discharged by the Bank's Regulatory Affairs Group (**RAG**). The RAG is a separate and independent unit with no business function. It is headed by the CCO who oversees the identification and management of the Bank's compliance risks. The CCO directly reports to the Board through the AML Committee and the ACC.

The Bank's compliance framework is based on a functional model consisting of the following operational components: (1) horizon scanning; (2) embedding; and (3) compliance testing and monitoring.

Horizon scanning entails an identification and impact assessment of any regulatory compliance risk that may arise from changes in the regulatory landscape, new products or businesses and market trends. Embedding requires the mapping of applicable regulations and reportorial requirements to the lines of business and ensuring that obligations arising from new regulations across various lines of business are adopted into the Bank's policies and procedures. Compliance testing and monitoring facilitates the detection and remediation of any control gaps noted in the Bank's policies. It also conducts a risk-based approach on testing, covering business units and head office units to ensure that all relevant regulations are properly implemented.

Capital Adequacy

The Philippines adopted capital adequacy requirements based on the Basel Capital Accord in July 2001. As of 30 September 2017, the Bank's core capital ratio (the ratio of Tier 1 Capital to risk-weighted assets) was 12.4 per cent., while its risk-weighted capital ratio (the ratio of total capital to risk-weighted assets) was 15.5 per cent. The BSP's minimum risk-weighted capital ratio is currently 10.0 per cent.

The following table sets out the capital adequacy ratios of the Bank as of the dates indicated:

	For the year ended 31 December			For the nine months ended 30 September
	2014*	**2015***	**2016***	**2017**
		(per cent.)		
Core capital ratio (Tier 1)[(1)]	11.8	12.6	12.9	12.4
Risk-weighted capital ratio	15.4	15.7	16.2	15.5

Notes:

(1) Total qualifying capital less Tier 2 capital divided by total risk-weighted assets.

* Capital ratios as computed based on Basel III standards

The following table sets out a breakdown of the Bank's consolidated capital base by category of capital as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
Tier 1 Capital				
Common Equity Tier (CET 1) Capital				
Paid-up share capital	28,904	36,634	36,634	36,634
Surplus	13,928	16,798	20,981	24,013
Undivided profits	4,332	5,117	3,864	3,364
Net unrealised gains or (losses) on AFS securities	1,060	658	2,367	1,987
Cumulative foreign currency translation	274	82	86	87
Others	-	-	(1,342)	(1,226)
Minority interest in subsidiary banks	24	29	31	32
Subtotal	**48,522**	**59,318**	**62,621**	**64,891**
Less: Regulatory Adjustments to CET 1 Capital				
Total outstanding unsecured DOSRI	(348)	(412)	-	(1)
Deferred tax assets	(84)	(1,104)	(2,137)	(2,096)
Goodwill	(158)	(158)	(158)	(158)
Other intangible assets	(879)	(1,958)	(1,965)	(2,028)
Defined benefit pension fund assets	(231)	(1)	-	-
Minority investments in subsidiary banks, quasi-banks and other financial allied undertakings	(17)	-	-	-
Other equity investments	(6,720)	(6,898)	(8,512)	(8,410)
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any	-	(8)	(8)	(5)
Total CET 1 Capital	**40,084**	**48,779**	**49,842**	**52,193**
Additional Tier 1 (AT1) Capital				
Paid-up share capital	3	3	3	3
Total Tier 1 Capital	**40,087**	**48,782**	**49,845**	**52,196**
Tier 2 Capital				
Subordinated Debt	9,921	9,936	9,952	9,964
General Loan Loss Provision	2,084	2,389	2,670	2,968
Total Tier 2 Capital	**12,005**	**12,325**	**12,622**	**12,932**
Total Qualifying Capital	**52,092**	**61,107**	**62,467**	**65,128**

The following table sets out the breakdown of the Bank's consolidated risk-weighted assets by category as of the dates indicated:

	As of 31 December			As of 30 September
	2014	**2015**	**2016**	**2017**
		(₱ millions)		
Risk-weighted on-balance sheet assets				
20 per cent.	745	783	1,065	610
50 per cent.	33,920	31,321	27,195	26,153
75 per cent.	6,447	6,245	7,137	7,948
100 per cent.	231,634	289,795	290,026	315,238
150 per cent.	9,099	8,603	9,104	10,836
Total risk-weighted on-balance sheet assets	**281,845**	**336,747**	**334,527**	**360,785**
Risk-weighted off-balance sheet exposures	10,565	9,444	9,261	12,337
Total risk-weighted interest rate and exchange rate related contingencies/Others	431	766	1,308	1,396
Market and operational risk-weighted assets	46,108	41,848	41,567	45,272
Total risk-weighted assets	**338,949**	**388,805**	**386,663**	**419,790**

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following information should be read together with the Bank's financial statements included in this Offering Circular as well as "Risk Management and Compliance" and "Description of the Bank".

Funding

The Bank's main sources of funding are time, savings and demand deposits. Deposits represented 71.4 per cent. of the Bank's total assets as of 30 September 2017. As of 30 September 2017, time, savings and demand deposits represented 41.5 per cent., 44.7 per cent. and 13.8 per cent., respectively, of total consolidated deposits of ₱374.6 billion (U.S.$7.4 billion). In recent years, the Bank has made directed efforts to increase its deposit base. The Bank also sources its funding requirements from the interbank market and general financings.

Sources of Funding

The following table sets forth an analysis of the Bank's principal funding sources and the average cost of each funding source for the periods indicated:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)
Deposits by type								
Demand............	32,197	0.3	44,311	0.3	42,053	0.3	51,757	0.3
Savings	164,269	0.3	178,197	0.3	162,926	0.3	167,481	0.3
Time	119,295	1.7	119,854	2.0	148,098	2.2	155,336	2.2
Total	**315,761**	**0.9**	**342,362**	**0.9**	**353,077**	**1.0**	**374,574**	**1.0**
Deposits by currency								
Peso	245,759	1.0	269,148	1.0	260,793	1.0	299,334	1.2
Foreign currency	70,002	0.6	73,214	0.6	92,284	0.6	75,240	0.5
Total	**315,761**	**0.9**	**342,362**	**0.9**	**353,077**	**0.9**	**374,574**	**1.0**
Borrowing								
Peso	12,888	2.8	20,199	3.9	15,886	4.6	16,927	5.4
Foreign currency	60,318	3.3	78,505	2.4	73,304	4.3	50,569	1.6
Total	**73,206**	**3.4**	**98,704**	**3.1**	**89,190**	**4.4**	**67,496**	**2.6**

Deposits

The Bank's principal sources of deposits are corporations and institutions. As of 30 September 2017, corporate and institutional deposits accounted for approximately 68.9 per cent. of the Bank's consolidated total Peso denominated deposit liabilities. The remainder of the deposits comprises principally deposits by individuals. The Bank's foreign currency denominated deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of 30 September 2017, the Bank's foreign currency deposits made up 20.1 per cent. of its total deposits.

The Bank has expanded its sources of funding in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability, liquidity, and reduce the discrepancies between its loan and deposit maturities. The Bank has also introduced and plans to continue to introduce, internal and external programmes to encourage increases in deposits, particularly traditional demand and savings deposits, such as the Savecation raffle promo and introduction of special rates for certain deposit accounts. Although the majority of the Bank's customer deposits are short-term, the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a source of long-term funds.

As of 30 September 2017, 58.53 per cent. of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on demand without any prior notice from the Bank's customers, as compared to 58.06 per cent. as of 31 December 2016. The following table sets out, for the periods indicated, an analysis of the maturities of the deposit base of the Bank:

	As of 31 December			As of 30 September
	2014	**2015**	**2016**	**2017**
	(Amount in ₱ millions)			
Deposits by type				
Demand	32,197	44,311	42,053	51,757
Savings	164,269	178,197	162,926	167,481
Time				
Up to 1 year	100,570	101,533	128,146	142,016
Over 1 year to 5 years	2,269	5,175	6,253	7,307
Over 5 years	16,456	13,146	13,699	6,013
Total time deposits	119,295	119,854	148,098	155,336
Total	**315,761**	**342,362**	**353,077**	**374,574**

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term duration of between one day and a few months. Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Government bond market, are important in the management of the Bank's liquidity. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation (the **PDIC**) which insures all deposits up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Bills Payable and Other Borrowings

The Bank also sources funds through bills payable. As of 30 September 2017, bills payable, which represent borrowings from local and foreign banks, amounted to ₱29.0 billion (U.S.$582.0 billion). As of 30 September 2017, approximately 76.0 per cent. of bills payable were denominated in foreign currencies. The Bank may also issue senior, subordinated or hybrid debt from time to time in order to raise funds or strengthen its capital base.

The following describes certain details of the Bank's outstanding subordinated debt.

Bills Payable

The following table sets forth, for the periods indicated, information related to the Bank's Bills Payable, which are comprised primarily of loans (syndicated and bilateral) and short term borrowings (money-market borrowings). Short-term borrowings exclude deposits and securities sold under repurchase agreements.

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(Amount in ₱ millions, except for percentages)			
Total bills payable				
Period-end balance	39,799	49,404	37,643	28,979
Average balance during the period	32,022	35,368	43,630	34,478
Maximum outstanding	41,171	51,324	52,974	42,119
Average interest rate during the period (per cent.)	1.4	1.2	2.2	2.6

Subordinated Debt

On 27 June 2014, the Bank issued ₱7.0 billion of unsecured subordinated notes qualifying as Tier 2 capital under Basel III standards (the **Tier 2 Capital Notes**). The Tier 2 Capital Notes bore a coupon rate of 5.375 per cent. per annum and will mature on 27 September 2024 unless the Bank exercises its early redemption option on 26 September 2019.

On 5 September 2014, the Bank issued another ₱3.0 billion Tier 2 Capital Notes which will constitute a further issuance of, be fungible, consolidated, form a single series, and to the extent provided in the terms, rank *pari passu* in all respects with the ₱7.0 billion 5.375 per cent. unsecured subordinated notes due 2024 issued on 27 June 2014.

Liquidity

The Bank must manage its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing, and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a highly liquid asset portfolio, the securing of an ample money market line, and the maintenance of repurchase facilities to protect against any unexpected liquidity shortages. Pursuant to BSP regulations, universal and commercial banks are required to maintain regular reserves of: (a) 20.0 per cent. against demand deposits, negotiable order of withdrawal accounts, savings deposit, time deposits, negotiable certificates of time deposits (**CTD**), long-term negotiable tax exempt CTDs, and deposit substitutes, Peso deposits lodged under "due to foreign banks", Peso deposits lodged under "due to head office/branches/agencies abroad" (Philippine branch of a foreign bank); (b) zero per cent. against deposit substitutes evidenced by repossession agreements and interbank call loan; (c) 4.0 per cent. against long-term negotiable CTDs under BSP Circular No. 304 (2001), deposit substitutes evidenced by repossession agreement; (d) 6.0 per cent. against bonds; and (e) 7.0 per cent. against long-term negotiable CTDs under BSP Circular No. 824 (2014). The BSP also requires banks to maintain asset cover of 100.0 per cent. for foreign currency liabilities of their FCDUs, of which 30.0 per cent. must be in liquid assets. The Bank has complied with the legal and liquidity reserve requirements for both Peso and FCDU deposits. The Bank currently complies with all of the requirements described above.

As of 30 September 2017, the Bank's liquid assets amounted to ₱102.2 billion (U.S.$2.1 billion), representing 19.5 per cent. of the Bank's total resources. Liquid assets include cash and other cash items, amounts due from BSP, amounts due from other banks, interbank loan receivables and trading and investment securities (excluding investment securities at amortised cost).

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(Amount in ₱ millions, except for percentages)			
Liquid assets(1)	79,467	89,500	141,361	102,183
Financial ratios (per cent.)				
Liquid assets-to-total assets...............	17.4	17.3	27.1	19.5
Liquid assets-to-total deposits............	25.2	26.1	40.0	27.3
Net loans-to-total deposits..................	82.3	86.7	89.1	90.2

Note:

(1) Liquid assets includes cash and other cash items, amounts due from BSP, amounts due from other banks, interbank loan receivables and trading and investment securities (excluding investment securities at amortised cost).

Loan Portfolio

As of 30 September 2017, the Bank's total loan portfolio amounted to ₱ 339.1 billion (U.S.$6.67 billion), representing approximately 64.67 per cent. of its total resources as of that date. The Bank's total consolidated loan portfolio increased by 10.76 per cent. from 31 December 2016 primarily due to an increase in SME loans of 24.0 per cent.

As of 30 September 2017, loans to the corporate market were ₱188.6 billion (U.S.$3.7 billion) as compared to ₱175.7 billion (U.S.$3.5 billion) as of 31 December 2016. Corporate lending accounted for 55.8 per cent. of the total gross loan portfolio of the Bank as of 30 September 2017. Lending to SMEs totalled ₱37.5 billion (U.S.$734.3 million) as of 30 September 2017, accounting for 11.1 per cent. of the Bank's total gross loan portfolio. Lending to consumers totalled ₱81.3 billion (U.S.$1.6 billion) as of 30 September 2017, accounting for 24.1 per cent. of the Bank's total gross loan portfolio.

Industry Concentration

As of 30 September 2017, the real estate industry represented the largest sector of the Bank's consolidated loan portfolio at 23.1 per cent. The majority of real estate lending is mortgage loans to consumers and working capital loans to private real estate developers. The second largest industry concentration of the Bank is In the electricity, gas and water sector followed by the consumer sector. The Bank has set industry limits reviewed on a periodic basis to manage risk concentrations.

The following table sets forth an analysis of the Bank's consolidated loan portfolio by economic activity, as defined and categorised by the BSP:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Real estate, renting and other related activities	57,784	22.3	76,052	25.6	70,532	23.1	78,160	23.1
Manufacturing (various industries)	38,658	14.9	39,497	13.3	41,689	13.6	35,173	10.4
Consumer	29,513	11.4	37,855	12.8	44,174	14.5	51,491	15.2
Wholesale and retail trade................................	26,051	10.1	23,993	8.1	26,279	8.6	35,679	10.6
Financial intermediaries ...	8,435	3.3	7,822	2.6	6,873	2.2	20,812	6.2
Other community, social and personal activities......	25,827	10.0	24,737	8.3	19,231	6.3	14,713	4.4
Transportation and communication.................	21,661	8.4	18,425	6.2	18,270	6.0	22,509	6.7
Agriculture, fishing and forestry.............................	1,979	0.8	3,796	1.3	4,090	1.3	4,349	1.3
Electricity, gas and water	38,587	14.9	51,148	17.2	52,062	17.0	63,609	18.8
Hotels and restaurants.....	2,421	0.9	3,018	1.0	3,260	1.1	4,008	1.2
Others	7,772	3.0	10,548	3.6	19,199	6.3	7,292	2.2
Total	258,688	100.0	296,891	100.0	305,659	100.0	**337,795**	**100.0**

The Bank intends to continue to focus its lending activities on lower risk areas such as Government guaranteed loans, top tier corporate loans, trade finance loans, and mortgage loans.

The Bank subscribes to internal policies toward exposure to the Philippine economy, while striking a balance with prescribed regulatory exposure limits. Internal industry limits are reviewed regularly taking into consideration the demands of the economy and strategy set by the Bank. The Bank also monitors its exposure to specific sectors of the economy to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must comply with legal requirements to make loans available to SMEs. Mandatory credit allocation laws require all Philippine banks to allocate six per cent. of their loan portfolios to small-sized enterprises and two per cent. to medium-sized enterprises. The Bank is in compliance with these requirements.

BSP regulations require banks to allocate 25.0 per cent. of their loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0 per cent. must be made available for agrarian reform beneficiaries. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible Government securities under certain conditions. As of 30 September 2017, the Bank satisfied these requirements as it provided ₱9.4 billion (U.S.$184.0 million) in loans to borrowers in the agricultural sector.

Maturity

Loans repayable on demand principally comprise inter-bank loans, while short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases. The percentage of the Bank's loans with longer maturities has increased recently due primarily to increases in mortgage, electricity, gas and water loans loans.

The following table sets out an analysis of the Bank's consolidated loans by maturity:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Within one year	69,191	26.7	69,727	23.5	78,613	25.7	99,301	29.4
More than one year	189,497	73.3	227,164	76.5	227,046	74.3	238,494	70.6
Total	**258,688**	**100.0**	**296,891**	**100.0**	**305,659**	**100.0**	**337,795**	**100.0**

Foreign Currencies

The Bank maintains its practice of extending foreign currency loans primarily to exporters who have an identifiable source of foreign currency earnings from which to repay the loans or otherwise hedged, and to importers who have authorisation from the BSP to purchase foreign currency to service their foreign currency obligations.

As of 30 September 2017, 82.2 per cent. of the Bank's loan portfolio was denominated in Pesos while 17.8 per cent. was denominated in foreign currencies, the majority of which comprised U.S. dollars . The following table shows an analysis of the Bank's gross loans and receivables by currency:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Pesos	221,385	85.6	253,223	85.3	253,267	82.9	277,644	82.2
Foreign Currency	37,303	14.4	43,668	14.7	52,392	17.1	60,151	17.8
Total	**258,688**	**100.0**	**296,891**	**100.0**	**305,659**	**100.0**	**337,795**	**100.0**

Interest Rates

An important component of the Bank's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Bank's interest rates on its interest-earning assets and interest-bearing liabilities. See "*Risk Management and Compliance – Interest Rate Risk Management*". The Bank's Asset and Liability Committee (**ALCO**) decides on asset and liability pricing (which include Fund Transfer Pricing (**FTP**)) and polices that are consistent with the strategies for the balance sheet. The lending market in the Philippines is principally based on floating rate lending. The Bank's floating rate loans are re-priced periodically by reference to Applicable Philippine Dealing System Treasury (**PDST**) and the ALCO FTP plus a spread. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced. See "*Risk Management and Compliance – Interest Rate Risk Management*". The following table shows the total amount of the Bank's loans that have fixed interest rates and variable or adjustable interest rates as for the periods indicated:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Fixed rate	88,356	34.2	100,845	34.9	130,869	42.8	133,043	39.4
Variable or adjustable rates	130,825	50.6	187,746	65.1	174,790	57.2	204,674	60.6
Total	**258,688**	**100.0**	**296,891**	**100.0**	**305,659**	**100.0**	**337,795**	**100.0**

The Bank's pricing policy with respect to its interest-bearing liabilities is also set by ALCO at its weekly meetings. Certain current account deposits pay interest on a monthly basis and savings account deposits typically pay no interest for deposits falling below the balance required to earn interest. As of 30 September 2017, the basic rate for savings account deposits that are above the minimum threshold is currently between 0.15 per cent. to 0.75 per cent., applied to Dragon Savings and Super Earner Savings Deposits depending on amount of deposit. The Bank has offered CASA special rate to select new and existing clients of up to 1.5 per cent. per annum for minimum ₱10 million fresh funds. The Bank also offers special interest rates for deposits under its time deposits account. These larger deposits are placed on pre-agreed terms and pay interest rates that generally track Philippine Treasury Bill rates.

Size and Concentration of Loans

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0 per cent. of its net worth. As of 30 September 2017, the Bank's single borrower limit (**SBL**), set by the BSP, was ₱15.4 billion (U.S.$303.4 million). In determining whether the Bank meets the SBL, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). This limit does not apply to loans which are secured with non-risk assets, including cash deposits and Government securities. The Bank has complied with the SBL on all of its loans.

As of 30 September 2017, the Bank's single largest corporate borrower accounted for 2.6 per cent. of the Bank's outstanding loan portfolio. As of 30 September 2017, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱58.2 billion (U.S.$1.14 billion), or 17.2 per cent. of the Bank's outstanding loan portfolio.

The following table presents a breakdown of total loans by principal amount as a percentage of total loans as of the periods indicated:

	As of 31 December			As of 30 September
(amount in ₱ millions)	**2014**	**2015**	**2016**	**2017**
₱5,000,000 or less	19.1	21.7	24.8	29.0
₱5,000,001 to ₱10,000,000	3.3	4.0	4.0	4.0
₱10,000,001 to ₱15,000,000	1.7	1.9	2.0	2.1
More than ₱15,000,000.........................	58.2	66.7	69.1	64.9
Total	**100.0**	**100.0**	**100.0**	**100.0**

Secured and Unsecured Loans

The Bank principally focuses on cash flows and cash generating capabilities in assessing the creditworthiness of borrowers. However, the Bank will secondarily seek to minimise credit risk with respect to a loan by securing loans with collateral or guarantees. Acceptable collaterals include real estate mortgages (with loan values ranging from 50.0 per cent. to 60.0 per cent. of appraised value), unconditional guarantee from fully owned Government institutions, standby letters of credit issued by internationally renowned banks, chattels (with loan values ranging from 30.0 per cent. to 50.0 per cent. of appraised value), shares of stocks and corporate bonds (with loan value of 50.0 per cent. of market value) and club shares (with loan value of 50.0 per cent. of market value after transfer costs). As of 30 September 2017, approximately 45.0 per cent. of the Bank's total loans were extended on a secured basis, with approximately 51.9 per cent. of the secured loans backed by real estate mortgages.

The following table sets forth the Bank's secured and unsecured loans, classified (in the case of secured loans) according to type of security:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Secured								
Real estate mortgage ..	64,636	25.0	79,505	26.8	78,707	25.7	78,790	23.3
Other securities	70,934	27.4	76,105	25.6	77,504	25.4	73,050	21.6
Total Secured	135,570	52.4	155,610	52.4	156,211	51.1	151,840	45.0
Unsecured	123,118	47.6	141,281	47.6	149,448	48.9	185,955	55.0
Total	**258,688**	**100.0**	**296,891**	**100.0**	**305,659**	**100.0**	**337,795**	**100.0**

In the Philippine banking industry as a whole and in the Bank's loan portfolio, secured loans are predominantly secured by real estate. Other forms of collateral include collateral over machinery and inventory and cash collateral. Personal guarantees are accepted from time to time as an additional source of collateral enhancement.

Loan Administration and Loan Loss Provisioning

Loan Classifications

The Bank classifies loans as non-performing in accordance with BSP guidelines. The guidelines require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain. All of the Bank's risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified, as follows:

Loans especially mentioned

These are loans that the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment. Weaknesses include repayment capability which may be endangered by economic/market conditions as reflected in the borrower's deteriorating financial performance, the existence of technical defects in the supporting collateral, and insufficient credit information about the borrower. Loans falling under this classification are given a five per cent. loan loss allowance.

Sub-standard loans

This classification includes loans that the Bank believes represent a substantial and unreasonable degree of risk to the Bank. Those loans classified as sub-standard have a weakness that is well-defined that jeopardises their liquidation. Such weaknesses may include adverse trends of a financial, managerial, economic or political nature, or a significant weakness in collateral.

Doubtful loans

These are sub-standard loans for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable.

Loss loans

Loans which fall under this category are considered uncollectible or of insufficient value to warrant classification as bankable assets. The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due if there are, among other things, indications of the deterioration of the creditworthiness of the borrower. Once interest on a loan is past due for 90 days, the Bank will classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

Provisions

Under existing BSP regulations, a general provision for loan losses shall be established as follows: (i) five per cent. of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) one per cent. of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

In accordance with BSP guidelines, the Bank makes the appropriate specific loan loss allowance as follows:

	Loan loss allowance
	(per cent. of principal amount of loan)
Risk classification	
Especially mentioned	5.0
Sub-standard (secured)	10.0
Sub-standard (unsecured)	25.0
Doubtful	50.0
Loss	100.0

The specific loan loss provision determined under BSP guidelines may differ from that determined under PAS 39. PAS 39 requires the level of loan loss provisioning to be determined on the basis of future recoverable amounts of the loans and receivables discounted at their original effective interest rates. If the loan or receivable has a variable interest rate, the discount rate for measuring the recoverable amount is the current effective interest rate determined under the contract. If the loan or receivable is collateralised and foreclosure is probable, the Bank should measure the level of loan loss provisioning based on the estimated fair value of the collateral.

The BSP conducts an annual audit on the Bank's individual loans to determine the classifications the Bank must apply to its loans when reporting classified loans to the BSP. The following is a summary of the risk classification of the aggregate loan portfolio (as a percentage of total outstanding loans) and allowance for impairment of the Bank as reported to the BSP on a non-consolidated basis as of the dates indicated below:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Risk classification								
Especially mentioned	864.9	35.5	553.0	25.1	302.3	12.7	245.7	8.6
Sub-standard – secured	482.7	19.8	337.2	15.3	781.9	32.7	1,208.4	42.2
Sub-standard – unsecured	713.8	29.3	147.7	6.7	137.3	5.7	453.3	15.8
Doubtful	57.9	2.4	572.9	26.1	726.7	30.4	695.1	24.3
Loss	319.1	13.1	588.1	26.7	439.9	18.4	258.6	9.0
Total classified	**2,438.4**	**100.0**	**2,198.9**	**100.0**	**2,338.1**	**100.0**	**2,861.1**	**100.0**
Unclassified	190,135.6		216,884.1		212,625.9		234,729.7	
Total	**192,574.0**	**100.00**	**219,083.0**	**100.0**	**214,964.0**	**100.00**	**237,590.8**	**100.0**
Allowance for impairment								

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Classified	616.6	19.2	971.3	27.3	930.8	25.7	852.0	26.6
Unclassified	2,598.7	80.8	2,586.7	72.7	2,688.6	74.3	2,350.2	73.4
Total	**3,215.3**	**100.0**	**3,558.0**	**100.0**	**3,619.4**	**100.0**	**3,202.2**	**100.0**

	As of 31 December			As of 30 September
	2014	2015	2016	2017
Total parent allowance	4,605	4,825	4,792	4,769
Credit Card Receivables	775	623	556	527
Unquoted Debt Securities Classified as Loans	716	764	766	818
Accrued Interest Receivables	46	45	36	40
Accounts Receivable	554	450	169	150
Sales Contract Receivables	14	8	31	31
Net allowance for loans	2,500	2,935	3,324	**3,203**

Allowance for impairment on classified accounts is based on the total principal balance outstanding. Loans classified as "loss" assets are generally written off by the Bank in accordance with BSP guidelines. The Board of Directors have discretion as to the frequency of write-off provided that these are made against provisions for impairment or against current operations. The prior approval of the Monetary Board is required to write off loans to the Bank's directors, officers, stockholders and their related interests.

As of 30 September 2017, the Bank's allowance for impairment for NPLs to total NPLs ratio was 1.4 per cent.

In addition to making specific allowances for impairment based on the risk classification of its loan portfolio, the Bank's allowances for impairment also include general allowances of one per cent. of the gross loan portfolio plus five per cent. of unclassified restructured loans. Generally, movements in the Bank's allowances for impairment represent provisions charged to operations. On a monthly basis, all past-due accounts are updated for movements according to "Aging Of Past Due Accounts" reports, which are summarised for portfolio tracking purposes and used to implement proactive strategies in accounts management.

Allocation of Provisions

The following table sets out the Bank's reconciliation of its balance of reserves for loan losses on a consolidated basis over the periods indicated:

	As of 31 December			As of 30 September
(Amount in ₱ millions)	**2014**	**2015**	**2016**	**2017**
Balance of reserves at beginning of period................................	6,131	6,457	7,040	7,411
Provisions during the year.....................	2,255	2,067	1,736	1,365
Account written off/others......................	(1,929)	(1,484)	(1,365)	(1,004)
Balance at the end of the period	**6,457**	**7,040**	**7,411**	**7,772**

Non-performing Assets

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise ROPA and NPLs. The table below sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses for the specified periods on a consolidated basis:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(Amount in ₱ millions, except percentages)			
Non-performing loans – net	2,636	2,305	3,065	4,835
Classified loans	5,464	5,427	6,546	8,985
Total loans – net	259,011	296,891	314,063	337,832
Total non-performing loans-to-total loans (per cent.)	1.0	0.8	1.0	1.4
Classified loans/total loans (per cent.)	2.1	1.8	2.1	2.7
Non-accruing loans	5,464	5,427	6,546	8,985
Non-accruing loans-to-total loans (per cent.)	2.1	1.8	2.1	2.7
ROPA – gross	4,345	3,971	4,507	2,432
ROPA/total tangible assets (per cent.)	1.0	0.8	0.7	0.4
ROPA/total tangible equity (excluding intangibles and deferred tax assets) (per cent.)	8.3	7.1	6.4	3.5
Non-performing assets (NPL – net plus ROPA, gross)	10,218	10,447	11,099	11,375
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets) (per cent.)	1.7	1.4	1.5	1.5
Allowance for impairment (total NPAs)	5,892	6,815	8,122	7,048
Allowance for impairment (loans)	4,972	5,711	7,026	6,437
Allowance for impairment (other ROPA)	920	1,104	1,096	611
Allowance for impairment (loans) as a percentage of total non-performing loans (per cent.)	96.1	105.2	110.6	78.0
Allowance for impairment (total) as a percentage of total non-performing assets (per cent.)	57.7	65.2	68.6	60.4
Total restructured loans	254	380	531	498
Classified as performing	137	164	207	287
Classified as non-performing	117	215	324	212
Restructured loans as a percentage of total loans (per cent.)	0.1	0.1	0.2	0.1
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing (per cent.)	75.4	91.0	101.2	85.5
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing (per cent.)	75.6	90.4	99.8	86.3
Loans – written off	643	1,402	779	319

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due; and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

Loans which have been foreclosed or have been transferred to the Bank's ROPA account are no longer classified as NPLs. Accrued interest arising from loan accounts are classified according to the classification of their corresponding loan accounts except for those which remain uncollected after six months from the date such loans or instalments have matured or have become past due for which a 100.0 per cent. allowance is made for uncollected accrued interest receivables.

Sectoral Analysis of NPLs

The following table sets forth the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs on a non-consolidated basis as of the dates indicated:

	As of 31 December						As of 30 September	
	2014		2015		2016		2017	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Agriculture, hunting, forestry and fishing...	6.5	0.3	4.5	0.2	109.1	5.7	0.95	0.03
Coconut production, sugar production, & fishing.....................	5.9	0.3	4.3	0.2	4.6	0.3	-	0.0
Mining and quarrying....................	1.0	0.0	1.0	0.0	-	0.0	-	0.0
Manufacturing	209.0	9.8	391.6	10.8	184.2	9.6	150.5	5.5
Electricity, gas and water	-	0.0	-	0.0	-	0.0	285.0	10.4
Wholesale and retail trade	435.9	20.4	497.7	22.7	449.3	23.5	463.3	16.9
Hotels and restaurants.................	13.6	0.6	6.9	0.3	11.0	0.6	14.8	0.5
Transportation, storage and communication............................	4.0	0.2	8.4	0.4	34.9	1.8	34.7	1.3
Financial intermediation	5.0	0.2	5.0	0.2	17.0	0.9	17.0	0.6
Diversified holding company	-	0.0	-	0.0	0.00	0.0	0.00	0.0
Real estate and other business services.......................................	182.0	8.5	246.1	11.2	205.0	10.7	906.0	33.1
Health and social work, Education and other community, social and personal services	12.8	0.6	12.1	0.6	17.5	0.9	19.1	0.7
Others	1,264.0	59.1	1,022.0	46.4	880.7	46.0	846.9	30.9
Total	2,139.7	100.0	2,199.6	100.0	**1,913.3**	**100.0**	**1,881.3**	**100.0**

The Bank's NPLs on a consolidated basis represented approximately 1.4 per cent. of the Bank's total consolidated gross loan portfolio as of 30 September 2017. As of 30 September 2017, ₱0.6 million (U.S.$0.01 million) of the Bank's loans to DOSRI were classified as NPLs and represented approximately 0.2 per cent. of the Bank's total consolidated gross loan portfolio.

Ten Largest NPLs

As of 30 September 2017, the Bank's ten largest NPLs accounted for 0.50 per cent. of its total loans to customers and 50.43 per cent. of its gross NPLs to customers. As of this same date, the Bank's exposure to its ten largest NPLs ranged from ₱24.9 million (U.S.$0.49 million) to ₱709.4 million (U.S.$13.9 million), and amounted to approximately ₱1,381 million (U.S.$27.0 million) in aggregate.

Loan Restructuring

In order to manage its loan portfolio and reduce its exposure to NPLs, the Bank's practice is to restructure those classified loans which it considers suitable for restructuring. The Bank restructures loans on a case-by-case basis. Restructuring methods used by the Bank have included extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cashflows of the borrower in question. Debt-for-equity swaps are also an option, but are rarely resorted to. In certain instances, the Bank has also favourably considered discounted compromise loan settlement schemes, provided the corresponding net present value analysis results in better returns and risk considerations versus yields and risks posed by longer-term restructures or litigation.

In accordance with BSP guidelines, NPLs which are successfully restructured are considered to be current and are no longer treated by the Bank as non-performing, generally following continued payments of three to six amortisations. As of 30 September 2017, the Bank had a consolidated portfolio of approximately ₱498 million (U.S.$10.0 million) of total restructured loans, including both performing and non-performing amounts.

The following table sets out the Bank's consolidated restructured loans for the specified periods:

	As of 31 December			As of 30 September
	2014	2015	2016	2017
	(Amount in ₱ millions)			
Non-performing restructured loans........	117	215	324	212
Performing restructured loans...............	137	164	207	287
Total	**254**	**379**	**531**	**498**

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on mortgage securing an NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. The Bank may also consider accepting a payment in kind (or *dacion en pago*) arrangement. Generally, the Bank will pursue foreclosure options if it concludes that no restructuring option is available after 45 to 60 days of negotiations. Foreclosure procedures may then require 30 to 60 days to complete, particularly considering legal procedures mandated by law.

The Bank's Remedial Management Division is responsible for the remedial management, loan restructuring and asset recovery activities of all potentially problematic and defaulted credits regardless of principal size. Once the mortgage over the collateral provided by either retail or corporate borrowers is foreclosed, the Bank's ROPA is turned over to and managed by the Asset Disposition Division for disposition while the Asset Management Support Division handles the documentation, administration and preservation requirements of the properties.

The Bank had a net ROPA of ₱5.4 billion, ₱3.4 billion, ₱3.2 billion and ₱3.5 billion (U.S.$68.9 million), as of 31 December 2014, 2015, 2016 and 30 September 2017, respectively. On a non-consolidated basis, of the total ROPA as of 30 September 2017 ₱21.6 million (U.S.$425.1 million) consisted of the Bank's holdings in shares of stocks and chattels and ₱641.3 million (U.S.$12.6 million) represented the Bank's holdings in real property, which comprised 203 properties.

The Bank's valuation reserves on ROPA amounted to ₱485.5 million (U.S.$9.6 million) as of 30 September 2017 as compared to ₱1,055.1 million (U.S.$48.5 million) as of 30 September 2016.

The Bank sells its ROPA through negotiated sales, public / private sealed bidding, and public auctions. The Bank requires buyers to put up an option money of at least 10.0 per cent. of the selling price for negotiated sale and show money of ₱25,000 during auction sales. Instalment sales have a term of up to ten years and the Bank charges fixed interest of 9.5 per cent. to 13.5 per cent per annum for the remaining term. Title to ROPA remains with the Bank until it receives full payment of the purchase price.

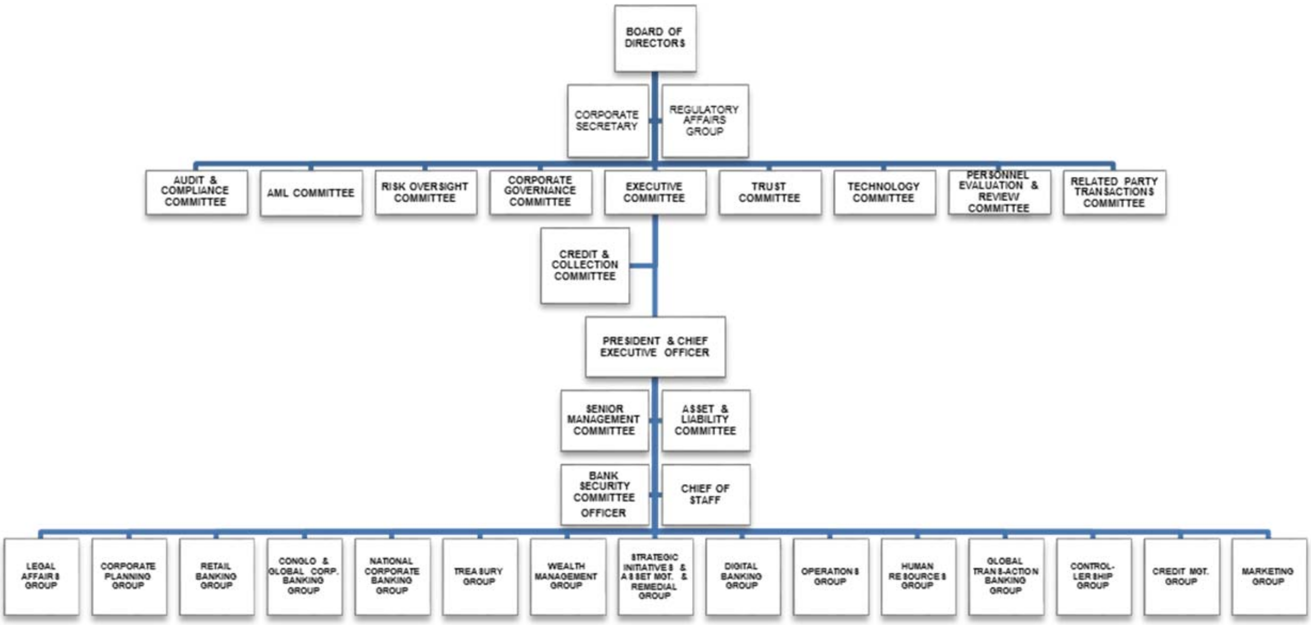
For the year ended 31 December 2016, and the nine months ended 30 September 2017, the Bank experienced no defaults with respect to ROPA sold on an instalment basis.

For the year ended 31 December 2016 on a non-consolidated basis, the Bank sold ₱15.3 million of ROPA thru negotiated sales. For the nine months ended 30 September, 2017, the Bank sold ₱6.4 million of ROPA. The Bank also generates earnings from its ROPA by leasing them on a short-term basis.

Transfer of NPAs

The overall asset quality of the Bank's loan portfolio has changed significantly in recent years as a result of transfers of NPAs, particularly NPLs. On 15 February 2013, RCBC and PAGO signed an asset sale and purchase agreement, and other related agreements and documents in relation to the sale of ₱4.7 billion of the Bank's non-performing assets. The transaction freed up ₱750 million of capital, which the Bank used to lend to small and medium enterprises, consumer and microfinance sectors. PAGO is a special purpose company formed by the IFC, OSK Group-Malaysia and Altus Transaction Services Inc.

MANAGEMENT, EMPLOYEES AND SHAREHOLDERS



Board of Directors and Executive Officers

The names, ages and positions of all the Bank’s directors are as follows:

Ms. Helen Y. Dee, 73, Filipino, is the Bank’s Chairperson. She is also the Chairperson/President of Hydee Management and Resource Corporation, House of Investments, Landev Corporation, Hi- Eisai Pharmaceutical Inc., Mapua Information Technology Center, Inc., and Manila Memorial Park Cemetery, Inc.. Ms. Dee is the Vice Chairperson of PMM IC. Among the top companies where she holds a directorship position are Philippine Long Distance Telephone Company, Petroenergy Resources, Inc., Sun Life Grepa Financial, Inc., Malayan and MICO. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Master in Business Administration at the De La Salle University.

Mr. Cesar E. A. Virata, 86, has been a Director of the Bank since 1995, Corporate Vice Chairman since June 2000 and Senior Adviser since 2007. He is also the Chairman and President of C. Virata and Associates, Inc., Management Consultants. Mr. Virata’s roster of companies where he is also a Director and/or Chairman include, RSB, RCBC Realty Corporation, RCBC Land, Inc., Malayan , Business World Publishing Corporation, Belle Corporation, Luisita Industrial Park Corporation, RCBC Bankard, and AY Foundation, Inc.. He held various key positions in the Government including Prime Minister, Secretary/Minister of Finance, Chairman of the Committee on Finance of the Batasang Pambansa (National Assembly), member of the Monetary Board, and Chairman of the Land Bank of the Philippines. Mr. Virata served as Governor for the Philippines to the World Bank, the ADB and the International Fund for Agriculture Development. He was Chairman of the Development Committee of the World Bank and International Monetary Fund from 1976 to 1980 and Chairman of the Board of Governors of the ADBk. Prior to his Government positions, he was a Professor and Dean of the College of Business Administration of the University of the Philippines and Principal of the management services division of SyCip Gorres Velayo and Company. Mr. Virata graduated from the

University of the Philippines with degrees in Mechanical Engineering and Business Administration (Cum Laude). He completed his Masters in Business Administration at the Wharton School, University of Pennsylvania.

Mr. Gil A. Buenaventura, 65, has been a Director of the Bank, President, and Chief Executive Officer since July 2016. He holds directorship and officership positions in GAB Realty Incorporated, RCBC Capital, RCBC LFC, RCBC Rental Corporation, RMB, RSB, RCBC Forex, and NPHI, among others. Mr. Buenaventura graduated from the University of San Francisco in California with a Bachelor of Arts degree in Economics and from the University of Wisconsin with a Master of Business Administration in Finance.

Mr. Tze Ching I. Chan, 60, has been a Director of the Bank since 2011. He is a Senior Adviser at CVC Capital Partners and The Bank of East Asia, Limited. He holds directorship positions at various companies in Hong Kong and is currently an Honorary Advisory Vice-President at Hong Kong Institute of Bankers. Mr. Chan graduated from the University of Hawaii with bachelor's and master's degrees in Business Administration. He is certified public accountant in the United States.

Mr. Richard Gordon Alexander Westlake, 65, has been a Director of the Bank since October 2014. He is the founder and managing director of Westlake Governance Limited, a New Zealand-based globally focused business now regarded as a leading adviser in corporate governance. Mr. Westlake has over 25 years of experience as a Director and Board Chairman. He is currently the Independent Chairman of the Careerforce Industry Training Organisation Limited, New Zealand, and an Independent Director of Dairy Goat Co-operative (New Zealand) Limited, the a producer and exporter of goat milk infant formula. Mr. Westlake holds a master's degree from Oxford University. He is an Accredited Fellow at the Institute of Directors in New Zealand, and an International Fellow of the Mudara-Institute of Directors in Dubai.

Mr. John Law, 67, has been a Director of the Bank since April 2015. He is currently a Senior Advisor for Greater China for Oliver Wyman, and a member of the board of directors of Far East Horizon, Ltd. in Hong Kong, BNP Paribas (China) Ltd., and Khan Bank in Mongolia. Mr. Law holds a Bachelor of Science degree in Psychology from Chung Yuan University in Taiwan, a Master of Business Administration degree from Indiana University, and a Master of Art in Poetry from the University of Paris.

Mr. Yuh-Shing (Francis) Peng, 45, has been a Director of the Bank since April 2015. He is an Executive Vice President of Cathay United Bank, handling various departments, particularly the overseas management department. Mr. Peng is also an Executive Vice President of Cathay Financial Holdings, in charge of the strategic planning division/investment management department. He holds a Bachelor of Science degree in Control Engineering from the National ChiaoTung University, a Bachelor of Laws degree from the National Taiwan University, and a Masters of Business Administration/Investment Management degree from the National Central University.

Atty. Florentino M. Herrera III, 66, has been a Director of the Bank since August 2016. He is also a Founding Partner of the Herrera Teehankee & Cabrera Law Offices and was former partner at Angara Abello Concepcion Regala & Cruz Law Offices. Atty. Herrera has been engaged in the general practice of law for the past 40 years specialising in corporate law practice, and serves as counsel/corporate secretary for various companies across numerous industries. He also holds a directorship position in various companies including Trans-Pacific Oriental Holdings, Co., Inc., Philippine Airlines, Inc., Mantrade Development Corporation, and Aeropartners, Inc. Atty. Herrera obtained both his Bachelor of Arts in Political Science and Bachelor of Laws degrees from the University of the Philippines. He is a member of the Integrated Bar of the Philippines.

Independent Directors

Mr. Armando M. Medina, 68, Filipino, has been an Independent Director of the Bank since 2003. He is a member of various board committees of the Bank, including the Executive Committee, Audit and Compliance Committee, and Risk Management Committee. He is also an Independent Director of

RSBank and RCBC Capital. Mr. Medina graduated from De La Salle University with a Bachelor of Arts degree in Commerce and Economics and a Bachelor of Science degree in Commerce with a major in Accounting.

Mr. Juan B. Santos, 79, has been an Independent Director of the Bank since November 2016. He holds an independent directorship position in First Philippine Holdings Corporation, Sun Life Grepa Financial, Inc., Alaska Milk Corporation, and Philippine Investment Management, among others. Mr. Santos is Chairman and Trustee at Dualtech Training Center Foundation, Inc., a Trustee at St. Luke's Medical Center, a member of the advisory boards of Coca-Cola FEMSA Philippines and East-West Seeds Co., Inc., and a consultant of the Marsman-Drysdale Group of Companies. He holds a Bachelor of Science degree in Business Administration from the Ateneo de Manila University and a degree on Foreign Trade from the Thunderbird School of Management in Arizona.

Amb. Lilia R. Bautista, 82, has been an Independent Director of the Bank since July 2016. She is an Independent Director of RFM Corporation and Transnational Diversified Group, Inc.; a Trustee of the CIBI Foundation and the St. Martin de Porres Charity Hospital; a Director of Philja Development Center; the Dean of the Jose Rizal University Law School; a professor at the Pamantasan ng Lungsod ng Maynila; Professorial Lecturer II at the Philippine Judicial Academy, and Member of the (National Group) Permanent Court of Arbitration. Amb. Bautista has held various positions in the public sector, including Chairperson of the WTO Appellate Body, Chairperson of the Securities and Exchange Commission, Ex-Officio Member of the Anti-Money Laundering Council, Acting Secretary of the Department of Trade and Industry, Chairman Ex-Officio of the Board of Investments; Ambassador Extraordinary and Plenipotentiary, Chief of Mission, Class 1 and Permanent Representative to the United Nations Office, World Trade Organization, World Health Organization, International Labor Organization and other international organizations in Geneva, Switzerland. She obtained her Bachelor of Laws and Master in Business Administration from the University of the Philippines and was conferred a Master of Laws degree by the University of Michigan as a Dewitt Fellow. Amb. Bautista is a member of the Integrated Bar of the Philippines.

Mr. Melito S. Salazar, Jr., 68, has been an Independent Director of the Bank since June 2016. He is also an Independent Director of Concepcion Industrial Corporation, Yanmar Philippines, TECO Philippines, Philippines First Insurance Corporation, Sun Life Prosperity GS Fund, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc., and Sun Life of Canada Prosperity Philippine Stock Index Fund; and a Director of the Chamber of Commerce of the Philippine Islands. Mr. Salazar held various key positions in the Government, including Monetary Board member of the Bangko Sentral ng Pilipinas, Undersecretary of the Department of Trade and Industry, and Vice-Chairman and Governor – Board of Investments. He received his Bachelor of Science in Business Administration major in Accounting and Master of Business Administration degrees from the University of the Philippines.

Atty. Adelita A. Vergel De Dios, 701, has been an Independent Director of the Bank sinceJune 2016. She is calso an Independent Director of RSB, and a member of the respective Board of Trustees of the Center for Excellence in Governance, Inc. and the Center for School Governance, Inc. Atty. Vergel De Dios served as Commissioner of the Insurance Commission, and held directorship and officership positions in various companies. She obtained her Bachelor of Business Administration and Accounting and Bachelor of Laws (Magna Cum Laude) from the University of the East. Atty. Vergel De Dios is a Certified Public Accountant and a member of the Integrated Bar of the Philippines.

Mr. Vaughn F. Montes, Ph.D., 66, has been an Independent Director of the Bank 26 September 2016. He is a Trustee at the Parents for Education Foundation (PAREF), PAREF Southridge School for Boys where he is also Chairman and President, PAREF Westbridge School for Boys, Foundation for Economic Freedom, and the Center for Family Advancement; and a Director of the Center for Excellence in Governance. Mr. Montes is a Teaching Fellow at the Institute of Corporate Directors. He worked as an Associate Economist at the Wharton Econometric Forecasting Associates in Philadelphia, Pennsylvania. He holds a Bachelor of Arts degree in Economics from the Ateneo de

Manila University, a Master of Science in Industrial Economics degree from the Center for Research and Communication (now University of Asia and the Pacific), and a PhD in Business Economics from the Wharton Doctoral Programs, University of Pennsylvania.

Mr. Gabriel S. Claudio, 63, has been an Independent Director of the Bank since July 2016. He holds a directorship position in Ginebra San Migue, Incorporated, Risk and Opportunities Assessment Management, Confict Resolution Group Foundation, Toby's Youth Sports Foundation, and the Philippine Amusement and Gaming Corporation. Mr. Claudio served as a political adviser to former Philippine presidents Fidel V. Ramos and Gloria Macapagal Arroyo and held various positions in Government including Chief of the Presidential Legislative Liaison Office, Cabinet Officer for Regional Development for Eastern Visayas, and Acting Executive Secretary. He also previously served as Chairman of the Board of Trustees of the Metropolitan Water and Sewerage System, Directors of the Development Bank of the Philippines (DBP), and Directors of the Philippine Charity Sweepstakes Office. Mr Claudio obtained his Bachelor of Arts degree in Communication Arts from the Ateneo de Manila University.

The Directors of the Bank are elected at the annual shareholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

None of the Bank's Directors are related to one another or to any of the Bank's executive officers.

Board Committees

The Bank's Board of Directors has created each of the following committees and appointed Board members thereto. Each member of the respective committees named below has been holding office as of the date of this Offering Circular and will serve until his successor shall have been elected and qualified.

Executive Committee

The Executive Committee has the power to act and pass upon such matters as the Board may entrust to it for action in between Board meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. In addition, the Executive Committee has the power to review an asset or loan to ensure timely recognition and resolution of impaired assets.

Audit and Compliance Committee

The Audit and Compliance Committee oversees the Bank's financial reporting and control, and internal and external audit functions. It is responsible for the establishment of the Bank's internal audit department and for the appointment of the Bank's internal auditor and independent external auditors. It is responsible for ensuring that a review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management, is conducted at least annually.

Anti-Money Laundering Committee

The Anti-Money Laundering Committee assists the Board in carrying out its mandate to fully comply with the AMLA, as amended, its revised implementing rules and regulations and the AML regulations under the Manual of Regulations for Banks; and to ensure that oversight on the Bank's compliance management is adequate. It also oversees the implementation of the Banks's Money Laundering and Terrorist Financing Prevention Program.

Trust Committee

The Trust Committee oversees the trust and fiduciary business of the Bank including the power to grant loans and credit accommodations to clients using trust accounts.

Personnel Evaluation and Review Committee

The Personal Evaluation and Review Committee acts as an independent body in the evaluation and review of cases involving dishonesty, fraud, and negligence, violation of any internal Bank policy, rule or procedure committed by an employee of the Bank. The Committee recommends disciplinary measures and penalties to the Board to be meted out in the case of violations. It has the power to affirm review, revise, or modify any resolution arrived at or action taken by management against employees with administrative cases.

Corporate Governance Committee

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities. The Committee reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It is responsible for ensuring the Board's observance of corporate governance principles and guidelines, including those set forth in the Bank's Manual of Corporate Governance. It also sets compensation for the Board and Executive Officers and makes recommendations to the Board regarding the continuing education of directors, assignments to Board committees, and succession plans for Board members and senior officers.

Risk Oversight Committee

The Risk Oversight Committee oversees the system of limits to discretionary authority that the Board delegates to Management. It ensures that the system remains effective, that limits are observed and that immediate corrective actions are taken whenever limits are breached. It likewise enables the Board to establish the Bank's risk tolerance within a risk-reward framework and ensures that a risk management strategy is in place that adheres to this framework.

Related Party Transactions Committee

The Related Party Transactions (**RPT**) Committee evaluates existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties are captured. Material RPTs are evaluated to ensure that such transactions are not undertaken on more favourable economic terms than similar transactions with nonrelated parties under similar circumstances, and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. The Committee also ensures that appropriate disclosure is made to regulating and supervising authorities, report is made to the Board on a regular basis, and that transactions are subject to periodic independent review. It oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Technology Committee

The Technology Committee oversees the Bank's hardware and software purchases, monitors performances of various IT applications of the Bank and the status of various IT projects.

Executive Officers

The names, ages and positions of all the Bank's executive officers are as follows:

Redentor C. Bancod, 53, Senior Executive Vice-President, is the Bank's Chief of Staff and the Head of the IT Shared Services Group. He was also the Head of IT Shared Services & Operations Group and the concurrent head of Digital Banking Group before assuming his current role. Previously, he was Vice-President & General Manager, Central Systems Asia of Sun Life Financial, Asia and Senior Vice-President and Chief Technology Officer of Sun Life Of Canada (Philippines) Inc. from October 2003 to 2007; Senior Vice- President & Chief Information Officer of Equitable Bank from July 1996 to September 2003; Assistant Vice-President and Head of Applications Development in Far East Bank from October 1993 to June 1996; Assistant Vice-President of Regional Operations (Asia Pacific) of Sequel Concepts, Inc. U.S.A/Ayala Systems Technology Inc. from November 1992 to September 1993; Project Manager in Union Bank of Switzerland, NA from April 1988 to November 1992; and Chief Designer and Technical Adviser in Computer Information System Inc. from March 1984 to April 1998. He obtained his Bachelor of Arts degree in Philosophy from the University of the Philippines and is a candidate for a Master of Science degree in Information Management from the Ateneo de Manila University.

John Thomas G. Deveras, 54, Senior Executive Vice-President, is the Head of Asset Management & Remedial Group and Strategic Initiatives. Initially, he was the Strategic Initiatives Head when he joined RCBC in 2007 but was appointed as Head of Asset Management & Remedial Group in October 2015. Prior to joining the Bank, he was an Investment Officer at International Finance Corporation. He also worked for PNB Capital and Investment Corporation as President and PNB Corporate Finance as Senior Vice-President. He obtained his Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and earned his Masters in Business Administration from the University of Chicago.

Chester Y. Luy, 48, Senior Executive Vice President, is the Head of Treasury Group. Prior to joining RCBC, he served in several leadership roles with various banks : Bank of Singapore as Managing Director / Head of Corporate Finance and Structured Transactions (January 2015 to June 2016), Julius Baer as Managing Director / Senior Advisor and Head of Investment Finance (December 2010 to November 2014), Bank of America / Merrill Lynch as Managing Director/Co-Head of Investment Team for Asia Pacific Region (June 2009 to November 2010), Barclays Capital as Managing Director / Head of High Yield Debt Capital for Asia Pacific Region (April 2002 to June 2009), HSBC Securities as Managing Director / Supervisory Analyst for Credit Risk Analysis Group (March 2001 to April 2002), JP Morgan Chase Securities as Vice President for Credit Risk Analysis Group (June 1995 to March 2001) and Merrill Lynch as Investment Management for Asia Pacific Region (June 1990 to September 1993). Mr. Luy graduated in 1990 from the University of the Philippines with a degree in Bachelor of Science in Business Administration. He obtained his Masters in Business Administration degree major in Finance at J.L. Kellogg Graduate School of Management, Northwestern University in 1995.

Michelangelo R. Aguilar, 61, Executive Vice-President, is the Head of Conglomerates and Global Corporate Banking Group. He was also the Deputy Group Head of Corporate Banking from November to December 2012 and Corporate Banking Segment 1 Head from September to November 2012. Prior to joining the Bank, Mr. Aguilar was Managing Director of Standard Chartered Bank and Head, Origination and Client Coverage and Co-Head, Wholesale Banking (2004 to 2011) and Country Head, Global Markets (1997 to 2004). He obtained his Bachelor of Science degree in Mechanical Engineering from De La Salle University and his Masters in Business Management from the Asian Institute of Management. He is a registered Mechanical Engineer granted by the Board of Mechanical Engineers, Professional Regulatory Commission.

Michael O. de Jesus, 55, Executive Vice-President, is the Head of National Corporate Banking Group. He was also the Deputy Group Head of Corporate Banking from November to December 2012 and the Corporate Banking Segment 2 Head from July 2007 to November 2012. He has a Bachelor of Arts degree in Economics from Union College in Schenectady, New York and a Masters in Business Administration (Finance) from The Wharton School, University of Pennsylvania.

Rommel S. Latinazo, 58, Executive Vice-President, is the President and Chief Executive Officer of RCBC Savings Bank. Prior to this, he was the Head of Corporate Banking Segment 1 under the Corporate Banking Group. He joined the Bank in 2000 as First Vice-President. Previously, he held various positions in Solidbank Corporation, Standard Chartered Bank, CityTrust Banking Corporation, First Pacific Capital Corporation and Philamlife Insurance Company. Mr. Latinazo obtained his Bachelor of Science degree in Management from the Ateneo de Manila University and his Masters in Business Administration from the University of the Philippines.

Ana Luisa S. Lim, 58, Executive Vice-President, is the Head of Operational Risk Management Group. She was formerly the Head of Internal Audit Group prior to assuming her current role. She is also a Director and Corporate Secretary of BEAMExchange, Inc. She joined the Bank in 2000 primarily to implement the risk-based audit approach under a shared-services set-up in conformity with the Bank's strategic risk management initiatives. Ms. Lim obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines. She is a Certified Public Accountant, Certified Information Systems Auditor and Certified Internal Auditor.

Edel Mary G. Vegamora, 57, Executive Vice President, is the Chief Audit Executive and Head of the Internal Audit Group. She is a Certified Public Accountant and Certified Internal Auditor. She also has a Certification in Risk Management Assurance and is a Fellow in the Institute of Corporate Directors. Ms. Vegamora has over 37 years of professional experience in the areas of risk management process, internal audit and control, banking financial reporting, governance process, banking taxation, banking products, and deals vetting. Her employment background includes being the Chief Financial Officer and Controller of Bank of Commerce. Prior to that, she was the Chief Internal Auditor of BDO Unibank, Inc. Ms. Vegamora graduated from the University of the East (Magna Cum Laude) with a degree in Bachelor of Science degree in Business Administration major in Accounting.

Simon Javier A. Calasanz, 38, First Senior Vice President, is the President and CEO of RCBC Bankard Services Corporation. Prior to this, he worked for over 13 years at Hongkong Shanghai Banking Corporation where he handled the following roles : Senior Vice President and Head of Contact Center Management and Consumer Loans (February 2012 to October 2015), Senior Vice President and Head of Cards and Consumer Assets (January 2009 to January 2012), Vice President for Credit Approval Risk Management (May 2007 to January 2009), OIC for Consumer Credit and Risk (September 2008 to November 2008), Assistant Vice President for Personal Financial Services (September 2006 to April 2007), Manager for Third Party Verification Agencies and Process Management (July 2005 to September 2006), Assistant Manager for Quality Review and Systems Support (December 2004 to July 2005), Manila Credit and Risk Support Manager-Manila Project Team (August 2004 to October 2004), Assistant Manager for Management Information Systems (June 2003 to December 2004), Management Information Credit Analyst (September 2002 to June 2003) and Credit Approval Unit Credit Analyst (April 2002 to September 2002). In addition, he also performed significant roles for the Credit Card Association of the Philippines where he is currently the Special Advisor to the Board, and for the Credit Management Association of the Philippines in which the last position he assumed was as Director in 2008. Mr. Calasanz graduated from De La Salle University with a Bachelor of Science degree in Commerce, major in Marketing Management and Bachelor of Arts degree in Psychology.

George Gilbert G. dela Cuesta, 49, First Senior Vice President, is the Group Head of the Legal Affairs Group and the Bank's Corporate Secretary. Previously, he was the General Counsel of Asian Terminals, Inc. and the Vice President for Legal of Mirant (Phils.) Corporation. He held various positions at Hanjin Heavy Industries & Construction Co. Ltd., Follosco Morallos & Herce Law Office, PNOC-EDC and at the Department of Environmental and Natural Resources. He started his career at Quisumbing and Torres. Atty, dela Cuesta graduated from the University of the Philippines in 1988 with a degree in Bachelor of Arts major in Political Science (cum laude). He earned his Law degree from the same university in 1992.

Jonathan C. Diokno, 44, First Senior Vice-President, is the Head of the Retail Banking Group. He has over 22 years of professional experience in transaction banking, cash management services and overseas Filipino remittance with extensive focus in sales and product management. He served as Head of BDO Remittance Origination, Head of Business Development BDO Cash Management Services, Head of Sales for Global Relationship Banking (Multinational) Accounts Cash Management Services Citibank, N.A., Business Development Manager Cash Management Services, Standard Chartered Bank and various officer positions in Cash Management at Bank of the Philippine Islands/Citytrust Banking Corporation. Mr. Diokno graduated from the University of the Philippines with a Bachelor of Science major in Business Administration in 1994, He is married with one son.

Lourdes Bernadette M. Ferrer, 59, First Senior Vice-President, is the Head of the Trust and Investments Group. Prior to joining the Bank in September 2000, she held various related positions in Solidbank Corporation and the International Corporate Bank. She graduated from the University of the Philippines with a Bachelor of Science degree in Statistics and likewise obtained her Master's Degree in Business Administration from the same university.

Gerald O. Florentino, 49, First Senior Vice-President, is the President of RCBC Securities. He held the position of Group Head and Deputy Group Head of Corporate Planning in RCBC prior to assuming his current position. Before joining the Bank, he was Senior Vice- President for the Investment Banking Group of Investment and Capital Corporation of the Philippines. He gained his corporate planning expertise from AXA Philippines as Vice-President and Head of Strategic Planning, Project Management and Business Development and AXA Way from 2007 to 2009. He also held various positions in UCPB for seven years during which his last appointment was the Head of Cash Management Products for the Working Capital Products Group. Mr. Fiorentino graduated from the Loyola University of Chicago, Illinois with a degree in Bachelor of Business Administration majoring in Finance and obtained his Masters in Business Management from the Asian Institute of Management.

John P. Go, 49, First Senior Vice-President, is the Head of Chinese Banking Segment 2. Prior to joining the Bank, Mr. Go was the Vice-President/Chief Finance Officer/Assistant to the Chairman of Liwayway Marketing Corporation (March 2002 to January 2008), Assistant Vice- President of UCPB (August 1996 to February 2002) and Manager/Business Development Department Head of Monte Piedad Savings Bank (January 1996 to July 1996). He holds a Bachelor of Science degree in Marketing from the Philippine School of Business Administration.

Margarita B. Lopez, 50, First Senior Vice President, is the Head of Digital Banking Group and the concurrent Head of Operations Group. Prior to joining the Bank, she was connected with Manulife Financial as a member of the Board of Directors and Corporate Vice President/ Asia Head of Digital from October 2014 to March 2016 and the Chief Operations Officer from February 2010 to September 2014. She also held the following positions in various institutions: Chief Operations Officer / Head of Customer Services and Support at Philippine AXA Life (January 2007 to February 2010), Group Head/First Vice President of Electronic Banking Services at Philippine National Bank (January 2005 to December 2006) and Division Head Vice President of Transactional Banking at United Coconut Planters Bank (1996 to 2004). She also held consultancy roles from 1988 to 1996 and was the Analyst Programmer for Infolink assigned at CityTrust from 1987 to 1988. Ms. Lopez started her career as Lecturer at the University of the Philippines in 1995. She obtained her Bachelor of Computer Science and Masters in Technology Management, Business and Industry in the same university.

Regino V. Magno, 59, First Senior Vice-President, is the Head of Business Risk Group. He was the Bank's Chief Risk Officer and the Head of Corporate Risk Management Services (CRISMS) when he was hired in 2009. Prior to joining the Bank, he was the Chief Risk Officer of Sterling Bank of Asia from August 2007 to December 2008. He was a Market Risk Consultant of Chase Cooper, a London-based consulting firm, Chief Risk Officer of Philippine National Bank for four years, a Consultant of Philippine Deposit Insurance Corporation for one year, and a Senior Risk Manager at the Bank of the Philippine Islands for four years. He also held various positions in CityTrust Banking Corporation. Mr. Magno obtained his Bachelor of Science degree in Industrial Management Engineering from De La Salle University and his Masters in Business Administration from the University of the Philippines.

Remedios M. Maranan, 57, First Senior Vice-President, is the National Service Head of Retail Banking Group. Ms. Maranan started as a BOTP Trainee in 1989 after which she assumed various positions in branch operations. Her noteworthy stints include being the Regional Operations Head for Metro Manila in December 1998 to April 2004, BC Services Division Head in May 2004 to May 2008 and Regional Service Head for Metro Manila in June 2008 to February 2010 and Deputy Group Head of BC Services from March 2010 to September 2013. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the Polytechnic University of the Philippines.

Yasuhiro Matsumoto, 58, First Senior Vice-President, is the Head of Global and Ecozone Segment and Japanese Business Relationship Office. Prior to this, he worked for The Bank of Tokyo-Mitsubishi UFJ, Ltd. since 1984, when the bank was named The Sanwa Bank, Ltd. He has also previously served as a director of the Bank. He obtained his Bachelor of Economics degree from Waseda University, Japan.

Emmanuel T. Narciso, 55, First Senior Vice President, is the Group Head of Global Transaction Banking. Prior to joining RCBC, he was the Group Head of Transaction Banking in Banco de Oro Unibank, Inc. from June 2011 to August 2015. He was also previously connected with the Hongkong and Shanghai Banking Corporation, where he handled the following roles: Head of Business Banking Division (Philippines), Head of Payments and Cash Management for Vietnam and Philippines. He also worked for Security Bank Corporation as Head of Corporate Transaction Banking Division and Citibank N.A. where his last appointment was as Business Development Head for Global Transaction Services. Mr. Narciso started his career in the banking industry when he was hired by the Bank of the Philippine Islands as an Analyst/Programmer in 1984. He obtained his Bachelor of Arts in Economics from the Ateneo de Manila University in 1984 and finished his Master in Business Management from the Asian Institute of Management in 1989.

Reynaldo P. Orsolino, 57, First Senior Vice-President, is the Segment Head of Emerging Corporates. He was also the Head of Commercial & Medium Enterprises Division before assuming his current position. Prior to joining the Bank, he served as Senior Vice-President of Philippine National Bank from June 2003 to July 2007, and previously held senior positions at the Planters Development Bank, Asian Banking Corporation, and the Land Bank of the Philippines. He holds a Bachelor of Arts degree in Economics from the University of the Philippines.

Alberto N. Pedrosa, 48, Senior Vice-President, is the Head of Investment and Markets Trading Segment. He was also the Investment Portfolio Management Division Head from August 2009 to June 2015. Prior to joining the Bank, he was the Chief Trader for Uniworks, Inc. (April 2009 to July 2009), Vice-President and Head of Global Liquid Products Trading for JG Summit Capital Markets (2000 to 2008), Assistant Vice- President of Asset, Liquidity Management and Investment Trading for PCIBank (1995 to 2000) and Senior Assistant Manager and Junior FX Trader for the Bank of the Philippine Islands (1993 to 1995). Mr. Pedrosa started his career when he joined BPI's Officer Training Program in 1993. He completed his Bachelor of Science degree in Commerce majoring in Philosophy at the London School of Economics.

Joseph Colin B. Rodriguez, 50, is the Treasurer of RCBC Savings Bank. Prior to this appointment, he was the President and Chief Executive Officer of RCBC Forex Brokers Corporation from April 2015 to August 2016 and Senior Vice President and Treasurer of RCBC Savings Bank from August 2011 to March 2015. He also assumed various positions in Rizal Commercial Banking Corporation as Head of the FX Risk Division and Head of Institutional Relationship Management Division. Before joining RCBC, he spent over two decades at the Treasury division of several foreign /local banks. He was Vice President and Head of the Foreign Exchange and Swap Desk at ING Bank Manila. He was also a Dealer at the Manila office of Banque Indosuez and Assistant Dealer at the Riyadh office of Banque Al Hollandi (ABN AMRO Bank). He also headed the FX and Swaps division of Bank of the Philippine Islands. He graduated from De La Salle University with a double degree in Liberal Arts & Commerce, Major in Marketing and in Political Science.

Bennett Clarence D. Santiago, 48, Filipino, First Senior Vice-President, is the Head of the Credit Management Group. He has over 21 years of professional experience in risk management with significant years focused to commercial credit risk management and evaluation as well as enterprise risk management. His experiences include serving as Head, Commercial Banking Credit Evaluation Unit, Risk Management Group of BDO; Risk Head of Citibank N.A.; Chief Compliance Officer, Union Bank of the Philippines; and various officer positions in International Exchange Bank, Globe Telecom Inc., and Hongkong and Shanghai Banking Corporation. He graduated from the University of the Philippines in 1991 with a Bachelor of Science degree in Business Administration. He finished his Master in Business Administration in 2001 from Ateneo de Manila Business School.

Rowena F. Subido, 51, First Senior Vice-President, is the Group Head of Human Resources. She was also the Deputy Group Head of Human Resources before assuming her current position. Prior to joining the Bank, she worked with Citibank, N.A. as Country Lead Human Resources Generalist/Senior Vice-President, prior to which she was Head of Human Resources for the Institutional Clients Group for almost two years. She has also worked with Citifinancial Corporation, the Consumer Finance Division of Citigroup, as Human Resources Head for four years. She also has HR experience in retail, distribution and manufacturing industries, having worked for California Clothing Inc. where she was Human Resources Head, International Marketing Corporation as Division Manager for Human Resources & Operations, Tricom Systems (Philippines), Inc. as a Personnel and Administration Officer and Seamark Enterprises, Inc. as a Personnel Officer. Ms. Subido obtained her Bachelor of Science degree majoring in Psychology from the University of Santo Tomas and her Masters in Psychology majoring in Organisational/Industrial Psychology at De La Salle University.

Ma. Christina P. Alvarez, 47, Senior Vice-President, is the Head of Corporate Planning Group. Prior to assuming this position, she was the OIC of Corporate Planning Group from October to December 2014 and the Financial Planning and Development Division Head from August 2006 to September 2014. She worked with various Banks in the areas of: Financial Planning, Risk Management and

Credit/Financial Analysis. Ms. Alvarez graduated from Ateneo de Manila University in 1991 with a Bachelor of Arts degree in Management Economics. She earned her Masters in Business Management degree from the Asian Institute of Management in 1998.

Lalaine I. Bilaos, 49, Senior Vice President, is the Head of the Local Corporate Banking Segment – Division II. Prior to occupying the position of Division Head on April 2011, she was holding the position of a Relationship Manager. She joined the bank in June 1992 as a Secretary for Corporate Planning. Six months therafter, she moved to Credit Operations Department to handle a Credit Analyst role. By January 1994, she joined Corporate Banking Group and was assigned under Project Finance as a Project Analyst. She also had other roles in the said team as Marketing Assistant and Jr. Project Account Officer. She became an Account Officer in 2000 at the Corporate Division 1 of Corporate Banking Group in Ortigas. Before joining RCBC, she had stints with Dynamic Union of Consultants and Managers, Inc and American Home Assurance Co. as Credit and Collection Assistant and Billing Assistant respectively. She graduated from De La Salle University in Manila in 1989 with a degree in Bachelor of Arts major in Economics.

Enrique C. Buenaflor, 47, Senior Vice President, is the Head of Corporate Cash Management Segment. He joined RCBC in 2010 as Business Development Manager of Global Transaction Banking Group and was later appointed as Head of Business Development Division in 2011. Prior to joining RCBC, he was the Group Head/Vice-President of Structure Products for Philippine Bank of Communications (August 2005 to March 2010), Operations Head of Central Verification Unit for Citifinancial Corporation (July 2004 to July 2005), Sales Head/Assistant Vice- President of Corporate Cash Management Services (2001 to 2004) and Product Manager (1999 to 2001) for ABN AMRO Bank. He also worked for Philippine Global Communications Corporation as Senior Manager for Corporate Planning (July 1999 to November 1999) and Capitol Wireless, Inc as Business Development Director/Marketing and Sales Manager (March 1997 to May 1999). He started his career in Citibank N.A. as Operations Staff in 1992 and then as Management Associate in 1996. Mr. Buenaflor earned his undergraduate degree, Bachelor of Science in Business Management from Ateneo de Manila University and finished his Masters in Business Management at Asian Institute of Management.

Brigitte B. Capina, 57, Senior Vice-President, is the Regional Sales Director of South Metro Manila. Prior to occupying this position, she was the Marketing and Sales Director of Makati Central Business District in 2013, the Regional Sales Manager of South Metro Manila in 2012, Regional Sales Manager of Corporate Headquarters in 2009 and Business Manager for various branches such as RCBC Plaza in 2005, Buendia in 2004 and Makati Avenue in 2003. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the University of San Agustin, Iloilo City and her Masters in Business Management from the University of the Philippines, Visayas.

Arsenio L. Chua, 57, Senior Vice-President, is the Regional Sales Director of North Metro Manila. Prior to occupying this position, he was the Marketing and Sales Director of Ortigas Central Business District in 2013, Regional Sales Manager of North Metro Manila in 2012, Regional Sales Manager of Central Metro Manila in 2010, District Sales Manager of Southern Metro Manila in 2009 and Business Manager of Caloocan Branch in 2007. He obtained his Bachelor of Science degree in Management and Industrial Engineering from the Mapua Institute of Technology.

Claro Patricio L. Contreras, 57, Senior Vice-President, is the Head of Remedial Management Division. Prior to joining RCBC, he was the AVP for Special Accounts Management Services Group at BPI (April 2000 to June 2000), AVP for Credit Mgmt. Services Group at FEBTC (January 1997 to March 2000), and Manager for Credit Management Services Group at FEBTC (October 1995 to December 1996). He completed his Bachelor of Science degree in Commerce majoring in Business Management from San Beda College.

Elizabeth E. Coronel, 49, Senior Vice-President, is the Head of Conglomerates and Strategic Corporates Segment. She joined RCBC in June 2013 as Senior Banker and Head of Conglomerate Banking Division. Previously, she was the Senior Vice-President and Chief Operations Officer of

Equicom Savings Bank, a position she held for more than five years. She also held various positions in local and foreign banks namely Mizuho Corporate Bank as Vice President and Co-Head of Corporate Finance Department (January 2007 to February 2008), Equitable PCIBank as Vice-President and Head of Corporate Banking Division 4 (1996 to 2007) and Citibank as Relationship Manager of Global Consumer Bank (1993 to 1996). She started her career in the banking industry when she joined RCBC in 1989 as Marketing Assistant for Corporate Banking. Ms. Coronel obtained her Bachelor of Arts degree in Behavioral Science from the University of Santo Tomas and earned MBA units from the Ateneo Graduate School of Business. She also completed the Miztjho-ICS (MICS) Mini- MBA program at Hitotsubashi University Graduate School of International Corporate Strategy.

Antonio Manuel E. Cruz, Jr., 50, Senior Vice President, is the Division 1 Head for Emerging Corporates Segment. He joined the Bank in 2008 and assumed the following positions for Commercial & Small Medium Enterprises under National Corporate Banking : Metro Manila- Luzon Head from December 2012 to September 2013, Makati Lending Center Head from September 2009 to December 2012 and Metro Manila Lending Center Head from January 2008 to September 2009. Before joining RCBC, he was the Ortigas Lending Center Head for Philippine National Bank from December 2005 to December 2007 and the Relationship Manager for Asia United Bank from September 2000 to November 2005. He started his banking career at Solidbank Corporation where he assumed the following positions: Relationship Manager from January 1994 to August 2000, Management Trainee from July 1993 to December 1993, Senior Analyst from January 1993 to June 1993 and Junior Analyst from July 1990 to December 1992. Mr. Cruz obtained his degree in AB Economics from the Ateneo de Manila University in 1990.

Edwin R. Ermita, 55, Senior Vice-President, is the Bank Security Officer. He was also the Corporate Services Division Head prior to assuming his current position. Previously, Mr. Ermita worked for CTK Incorporated as Consultant, Solidbank as Security and Safety Department Head and UCPB as Security and Safety Department Head. He started his career in UCPB as Teller in 1983 before moving to Branch Marketing in 1985. Mr. Ermita earned his Bachelor of Science in Management from Ateneo de Manila University. He finished his Masters in Business Administration with specialization in Industrial Security Management from the Philippine Women's University.

Benjamin E. Estacio, 46, Senior Vice-President, is the Regional Service Head of Mindanao. Prior to assuming this position, he was the District Service Head of Southern Mindanao from May 2004 to March 2011. Mr. Estacio started his career with the Bank as SA Bookkeeper in February 1992 after which he assumed various positions in the branch. He graduated from the University of San Carlos, Cebu City with a Bachelor of Science in Commerce major in Accounting in 1991.

Erico C. Indita, 49, Senior Vice President, is the Segment Head of Retail Banking Sales. Mr. Indita was hired as Domestic Remittance Clerk in 1993 after which he assumed various positions in Retail Banking. His noteworthy stints includes being the Regional Sales Director of Central Metro Manila (January 2015 to November 2016), District Sales Director of Makati Central Business District (January 2014 to December 2014), Marketing and Sales Director of Chinese Uptown (February 2013 to December 2013), District Sales Manager of Makati Central Business District (January 2011 to February 2013) and Business Manager of Makati Avenue (November 2004 to December 2010). He graduated from San Beda College with a degree in Bachelor of Science in Commerce major in Management in 1989 and finished his Master in Business Administration at the Ateneo de Manila in 2007.

Vivien I. Lugo-Macasaet, 58, Senior Vice-President, is the Head of Management Services Division. She was also the Head of the HO Operations Division from November 2008 to January 2014. Prior to joining the Bank, she served as Vice-President of Financial Markets Operations at Citibank (May 2006 to June 2008), Senior Vice-President and Group Head of the International Processing Group at PNB (December 2002 to April 2006) and Vice-President and Business Manager for Institutional Equities at JP Morgan Equities (July 2001 to October 2002). Ms. Lugo-Macasaet graduated from the University of the Philippines with a Bachelor of Arts degree in Economics.

Jonathan Edwin F. Lumain, 56, Senior Vice President, is the Bank's Chief Technology Officer. Mr. Lumain joined the Bank in 2001 and held the following IT-related positions : IT Head for Shared Technology Services (January 2008 to May 2016), Application Systems Department Head (August 2003 to December 2007) and Information Management Head (August 2001 to August 2003). Prior to joining RCBC, he was the Department Head of Branch Systems for BPI (November 1999 to July 2001), Department Head of Trust Banking Systems Development for Far East Bank and Trust Company (August 1993 to October 1999), Project Manager for Philippine Commercial International Bank Automation Center (November 1990 to July 1993) and Systems Analyst for Al Ajlani Ent., KSA (May 1985 to October 1990). He started his career in IT when he joined Andres Soriano Corporation as Programmer Trainee in December 1981. Mr. Lumain earned his Bachelor of Science in Business Administration degree from the University of the Philippines in 1981. He obtained his Master of Science in Computer Science from the Ateneo de Manila University in 1997.

Florentino M. Madonza, 47, Senior Vice-President, is the Group Head of Controllership effective 14 October 2014. He was the Deputy Group Head of Controllership from August 2014 to October 2014, General Accounting and Services Division Head from July 2004 to July 2014, General Accounting Department Head from September 2001 to July 2004, Assistant to the Department Head of General Accounting from January 1998 to September 2001, Asset Management and Sundry Section Head from September 1997 to December 1997 and Corporate Disbursement and Payroll Section Head from June 1996 to September 1997. Prior to joining the Bank, he worked for Sycip, Gorres, Velayo and Co. from July 1993 to May 1996 as Auditor. Mr. Madonza completed his Bachelor of Science in Commerce major in Accounting (Cum Laude) from the Araullo University, and is a Certified Public Accountant.

Jane N. Mañiago, 53, Senior Vice-President, is the Group Head of Wealth Management. Prior to this appointment, she was the OIC of Wealth Management Group from December 2015 to January 2016, Segment Head of Wealth Management 1 from September 2014 to November 2015, Division 2 Head of Wealth Management from December 2006 to August 2014 and Relationship Manager for Division 2 from April 2006 to December 2006. She also worked for YGC Corporate Services Inc. as Officer-In-Charge and Marketing Head. Prior to joining the Bank, she worked with Citibank as Cash Product Manager for Global Transaction Services (September 1998 to January 1999), Account Manager (April to August 1998) and Head of Corporate Banking for Chinatown Branch (November 1996 to March 1998) and at Equitable Banking Corporation from May 1986 to October 1996, where her last appointment was the Head of the Research and Special Projects Unit. She obtained her Bachelor of Science degree in Commerce degree majoring in Business Administration and her Bachelor of Arts degree majoring in Behavioural Science from the University of Santo Tomas.

Jose Jayson L. Mendoza, 46, Senior Vice President, is the Provincial Division Head for Commercial and SME Banking Segment. He joined the Bank in 2008 as Lending Center Head for Small & Medium Enterprises Division-Luzon. Previously, he worked with Maybank Philippines as Head of Retail Loans Management (January 2005 to August 2008), Philippine National Bank as Account Officer (January 2003 to December 2004), Philippine Savings Bank as Account Officer (August 1996 to December 2002) and Islacom as Senior Credit Investigator (May 1994 to July 1996). He started his banking career when he joined Allied Banking Corp. as Credit Investigator in 1993. Mr. Mendoza graduated in 1993 from De La Salle University with a degree of AB Management.

Gerardo G. Miral, 52, Senior Vice-President, is the Head of Consumer Lending Group of RCBC Savings Bank. Prior to his secondment to RCBC Savings Bank, he was the Division II Head of Global and Ecozone Segment from April 2011 to January 2016 and Relationship Manager for JES Division II from February 2002 to April 2011. He also assumed various positions in the branch from September 1987 to February 2002. Mr. Miral obtained his Bachelor of Arts major in Economics degree from the University of Sto. Tomas in 1986.

Ma. Cecilia F. Natividad, 43, Senior Vice President, is the Head of the Marketing Group. She has over 21 years of professional experience in the areas of global and multi corridor marketing, strategic planning and classic and digital communications. Her experiences include serving as Head of

Marketing, Philippines of The Western Union Company, Marketing Manager of Nestle Philippines, Inc., and Sales Trainor of Ayala Life Insurance, Inc. She graduated from the Ateneo de Manila University in 1995 with a Bachelor of Science degree in Legal Management.

Evelyn Nolasco, 56, Senior Vice-President, is the Head of the Asset Disposition Division. Before she joined the Bank, she was the Senior Vice-President and Treasury Head of the AGSB Group of Companies in 1995 and Manager for Corporate Finance for SGV & Company from 1994 to 1995. She graduated from De La Salle University with a Bachelor of Science degree in Commerce majoring in International Marketing and obtained her Master's degree in Business Management from the Asian Institute of Management.

Matias L. Paloso, 59, Senior Vice-President, is the Head of Retail Banking Support Segment. He was formerly the Head of RBG Products, Support & Systems Segment from July 2014 to November 2016 and was seconded to RSB as Deputy Group Head of Retail Banking from April 2012 to July 2014. Prior to this, he was assigned at RCBC as the Regional Sales Manager of North Metro Manila in 2011, Regional Sales Manager of Southern Luzon in 2009, District Sales Manager of South West Luzon in 2002 and Business Center Manager of Camelray Branch in 1999. He obtained his Bachelor of Science degree in Commerce majoring in Accounting from Divine Word College, Tagbilaran City.

Loida C. Papilla, 56, Senior Vice-President, is the Asset Management Support Division Head. She joined RCBC in 2006 as Operations Support Division Head. She worked for various institutions in the following capacities : Assistant Vice-President / Head of Billing and Collections Section in PNB (April 2004 to February 2006), Assistant Vice-President/OIC in UCPB Securities Inc. (August 1999 to January 2004), Operations Finance Manager in Guoco Securities Inc. (January 1994 to August 1999), Media Consultant in the Office of the Senate President (October 1992 to December 1993), Research Director in Philippine Newsday (June 1989 to June 1992), Research Head in Business Star (June 1987 to June 1989) and Researcher in Business Day Corp. (November 1981 to June 1987). Ms. Papilla graduated from the University of the East in 1981 with a Bachelor of Science in Business Administration major in Accounting. She is also a Certified Public Accountant.

Arsilito A. Pejo, 55, Senior Vice-President, is the Regional Sales Director of Eastern Visayas since 1 January 2015. Mr. Pejo joined RCBC in 1982. His noteworthy stints include being the Regional Service Head of Visayas from June 2008 to December 2014 and Area Service Head of Visayas from May 2004 to May 2008, Regional Operations Head from October 2002 to April 2004 and Cebu Operations Center Head from June 1998 to September 2002. He obtained his Bachelor of Science degree in Commerce major in Accounting from Colegio de San Jose — Recoletos in 1982.

Honorata V. Po, 57, Senior Vice President, is the Regional Sales Director for the South Luzon Regional Office. Prior to assuming the role of Regional Sales Director in 2016, she was a District Sales Director and a District Sales Manager for Southeast Luzon District from 2014 to 2016 and 2008 to 2013 respectively. In between these roles, she was designated as Financial Center Head based in Lucena in 2013. She joined the bank in 1994 as Business Center Manager, a position which she held until 2008. Before she joined RCBC, she was connected with Philippine National Bank from 1983 to 1993. She handled various roles in the said bank which include the following - Audit Clerk, Statistician, Audit Examiner, Accountant, Cashier and Branch Manager. Her first banking experience was gained from Far East Bank where she worked as a Teller from 1980 to 1982. Outside the banking industry, she had engagements in other institutions as follows: as Regional Governor for the Philippine Chamber of Commerce and Industry (2009 to 2010), as President of Quezon - Lucena Chamber of Commerce and Industry (2007 to 2008) and as a Director/Minor stockholder of Moldedcraft Consulting Corporation. She obtained a Bachelor of Science in Business Administration major in Accounting at the University of the East in 1980.

Nancy J. Quiogue, 49, Vice-President, is the Regional Service Head for Metro Manila. Prior to assuming her current position in 2010, she was the District Service Head for Metro Manila from May 2004 to April 2010. She also held various positions at the Bank since 1991. Ms. Quiogue graduated from the Philippine School of Business Administration with a Bachelor of Science degree in Business Administration majoring in Accounting.

Elsie S. Ramos, 52, Senior Vice-President, is the Legal Affairs Division Head. She joined the Bank in 2006 and assumed the position of Litigation Department Head. Prior to joining RCBC, she was the Corporate Lawyer and Head of Legal and Corporate Affairs Division for Empire East/Land Holdings (2004 to 2006), Senior Associate and Lawyer-In-Charge of the Docket/Records Section for Ponce Enrile Reyes and Manalastas (2003 to 2004), Senior Associate for Martinez and Mendoza (2001 to 2002), Senior/Junior Associate for Ponce Enrile Reyes and Manalastas (1996 to 2000) and Legal Consultant for Companero Y Companera (1997 to 1998). She held various positions in the University of the Philippines, Department of History such as Assistant Professor (1994 to 1998), Assistant to the Chairman (1992 to 1993) and Instructor (1988 to 1994). She was also a Part- Time Instructor at the St. Scholastica's College, Manila from 1987 to 1989. She obtained her Bachelor of Arts and Master of Arts degree in History from the University of the Philippines, Diliman. She also finished her Bachelor of Law in the same university.

Ismael S. Reyes, 51, Senior Vice-President, is the Head of Retail Banking Marketing Segment. He was formerly the National Sales Director when he joined the Bank in 2013. Prior to joining RCBC, he assumed various positions in Philippine Savings Bank as First Vice-President/ Head of the Loans Operations Group (October 2012 to October 2013), First Vice President/Branch Banking Group Head (January 2011 to October 2012), Vice-President/Deputy Branch Banking Group Head (June 2010 to December 2010) and Vice- President/ Business Development Unit Head (October 2008 to May 2010). He worked for iRemit Inc where he handled roles such as Division Head for Market Management (January 2004 to September 2008) and Deputy Head for the Global Sales and Marketing Division (August 2001 to December 2003). He also worked with Bank of the Philippine Islands where he was assigned as Operations Manager /Section Head for Funds Transfer Department from 1999 to 2001. His banking career started in Far East Bank in 1987 when he was hired as Staff for International Operations Division. By 1990 he was promoted to a supervisory rank in the same division and as an officer in 1993. He held the position of Department Head in International Operations in 1995 and became a Project Officer for the Remittance Center in 1996. Mr. Reyes earned his Bachelor of Science degree in Commerce major in Economics at the University of Santo Tomas.

Steven Michael T. Reyes, 46, Senior Vice-President, is the Head of Commercial Trading and Sales Segment. Previously, he was First Vice President of Global Markets for Australian & New Zealand Banking Group (March 2009 to January 2014), Vice President / Head of Capital Markets for Banco De Oro (October 2006 to March 2009), Assistant Vice President /Debt and Interest Rate Trader for Citibank, Singapore (January 2006 to October 2006) and Assistant Vice President/Bonds Trader for Citibank, Manila (January 2002 to December 2005). He also worked for Equitable PCIBank from July 1999 to December 2001 and PCIBank from May 1996 to July 1999 and held the following positions : Senior Manager/Head of Capital Markets Desk (July 2000 to December 2001), Manager /Global Fixed Income Proprietary Trader (July 1999 to July 2000), Assistant Manager / Fixed Income Proprietary Bond Trader (July 1997 to July 1999) and Proprietary Bond Trader (May 1996 to July 1997). Mr. Reyes started his banking career when he joined Bank of the Philippine Islands in 1993 as Position Analyst. He completed his Bachelor of Science in Tourism Management at the University of the Philippines in 1993.

Ma. Rosanna M. Rodrigo, 56, Senior Vice President, is the Regional Sales Director of North Luzon Region. Ms. Rodrigo joined the Bank in 1992 and assumed the following positions: Marketing and Sales Director of North West Luzon (February 2013 to September 2013), District Sales Manager of North Central Luzon (November 2009 to February 2013), Branch Manager of Tarlac (February 2005 to November 2009), Branch Manager of Hacienda Luisita (July 1997 to January 2005) and Senior Personal Banker of Tarlac (November 1992 to June 1997). She also worked for Producers Bank of the Philippines as Cashier of Tarlac Branch (April 1983 to October 1992), Far East Bank and Trust Co. as New Accounts Clerk of Tarlac Branch (March 1982 to March 1983) and as contractual employee for New Accounts of Tarlac Branch (December 1981 to February 1982). Ms. Rodrigo obtained her Bachelor of Arts degree in Mass Communication major in Broadcasting from the University of the Philippines in 1981.

Raoul V. Santos, 51, Senior Vice-President, is the Investment Services Division Head. He joined RCBC in 2001 as Portfolio Management Section Head before assuming the Investment Services Department Head position in 2008. He also worked for Metropolitan Bank and Trust Company (2000 to 2001), Solidbank Corporation (1999 to 2000). Phinma, Inc. (1991 to 1999) and SGV & Co. (1990 to 1991). Mr. Santos obtained his Bachelor of Science degree in Management of Financial Institutions and Bachelor of Arts degree in Asian Studies from the De La Salle University.

Libertine R. Selirio, 52, Senior Vice-President, is the Division I Head of Global and Ecozone Segment. Prior to this, she was the Deputy Division Head of JES II from June 2011 to October 2012, Relationship Manager of JES Division II from February 2002 to May 2011, Branch Manager of Dasmarinas from September 2000 to February 2002, Branch Manager of Carmona from July 1998 to September 2000 and Branch Manager of Imus from September 1997 to July 1998. Before joining RCBC, she worked for Pilipinas Bank and assumed the following positions: Account Officer (1993 — 1997), Financial Analysis and Evaluation Section Head (1991 — 1993), Credit Analyst (1989— 1991) and EDP Teller (1987— 1989). Ms. Selirio earned her Bachelor of Science in Commerce major in Accounting from St. Scholastica's College in 1986.

Johan C. So, 47, Senior Vice-President, is the Head of Division 1 in Local Corporate Banking Segment. Prior to assuming current position, he was the Head of Kaloocan Division from July 2013 to January 2014 and Head of Chinese Banking Division III from June 2008 to June 2013. From August 2005 to May 2008, he worked for Philippine Bank of Communications in which the last position he assumed was as Vice-President/Unit Head of Corporate Banking Group 5. He also worked for Standard Chartered Bank from May 1999 to May 2002, T.A. Bank of the Philippines, Inc. from February 1997 to May 1999 and China Banking Corporation from 1993 to 1997. Mr. So graduated from De La Salle University in 1992 with a degree in Bachelor of Science in Applied Economics and Bachelor of Science in Commerce major in Marketing Management. He obtained his Master degree in Business Administration from the Ateneo.

Ma. Angela V. Tinio, 54, Senior Vice-President, is the Head of Commercial and Small Medium Enterprises Banking Segment. She has been with the Bank since 2000, holding various positions in Corporate Banking such as VisMin Lending Region Head (December 2010 to June 2013), Metro Manila-Luzon Region Head (April 2006 to November 2010) and Account Management Department Head (July 2000 to April 2006). She worked with Bank of the Philippine Islands as Special Business Unit/Corporate Banking Il Manager and Market Head in April 2000. She also held various positions in Far East Bank and Trust Company from June 1997 to April 2000, PDB Leasing and Finance Corporation from February 1996 to April 1997 and Traders Royal Bank from January 1985 to January 1996. Ms. Tinio obtained her Bachelor of Arts degree in Economics from the University of the Philippines and her Master's degree in Business Administration from the De La Salle University.

Gianni Franco D. Tirado, 45, Senior Vice President, is the Regional Sales Director of Mindanao Region. Prior to assuming his current role, he was the Marketing and Sales Director of Central Mindanao (February 2013 to September 2013), District Sales Manager of Central Mindanao (March 2009 to February 2013) and Branch Manager for several branches in Mindanao (November 2000 to February 2009). He also assumed the Branch Operations Head of Marbel (February 1998 to October 2000), Cl/Appraiser/Loans Clerk (June 1996 to January 1998) and CASA Bookkeeper of Dadiangas (October 1993 to May 1996). Mr. Tirado earned his Bachelor of Science in Commerce major in Accounting degree from the Notre Dame of Dadiangas University in 1993. He also completed his Masters in Education major in Special Education at the Holy Cross of Davao College in 2009.

Juan Gabriel R. Tomas IV, 46, Senior Vice-President, is the Head of the Customer Service Support Segment, Operations Group. He has over 20 years of professional experience in loans, custody and treasury operations, IT application, development and support, capital markets, customer service, process standardization, automation and re-engineering in the banking industry and consulting firms.

His experiences include serving as Head of Capital Markets and Custody, Operations Group, Citibank N. A., Head of Treasury Services Unit, Citibank N. A. Consultant, Deutsche Bank AG Manila, and Consultant, Accenture (formerly Andersen Consulting). Mr. Tomas graduated from Ateneo de Manila University in 1993 with a Bachelor of Science degree in Management. He completed his Masters in Business Management major in Finance in 2001 at the Asian Institute of Management.

Raul Martin J. Uson, 55, Senior Vice President, is the Segment Head for Front Line Operations. He was previously connected with PBCom as Business Centre Operations and Oversight Head. He also assumed the following roles at Citibank N.A. prior to joining PBCom in 2012 : Operations and Services Head (2007 to 2012), Deputy Senior Country Operations Officer for Citi Indonesia (2006), Credit Operations and Transaction Services Head for Citigroup Business Process Solutions (2004 to 2006), Transaction Services Head (2001 to 2004), Internal Control Head (1999 to 2001), Infrastructure Head (1998 to 2001), Quality Assurance Head (1996 to 1998), Expense Processing Department Head (1993 to 1995), Quality Assurance Officer (1991 to 1993), Trade and Reconcilement Unit Head (1988 to 1991), Cash Officer for Greenhillls Branch (1985 to 1988) and Teller for Makati Branch (1984 to 1985). Mr. Uson graduated from the University of the Philippines Baguio with a degree in AB Economics and Psychology in 1983.

Teodoro Eric D. Valena, Jr., 59, Senior Vice-President, is the Applications Architect of IT Shared Services Group. Previously, he was the Retail E-Channels Division Head from January 2015 to September 2015, Finacle Division Head from January 2008 to December 2014, Applications Development & Management Division Head from September 2006 to December 2007 and the Application System Services Department Head from April 2001 to September 2006. Prior to joining the Bank, he held various IT-related positions in several institutions such as Citibank (January 1987 to March 2001), MANCOMTECH (July 1986 to November 1986), Revenue Information Systems Services Inc. (October 1983 to May 1986), Trans-Union Corp. (June 1983 to October 1983), Mini-Systems Inc. (October 1981 to March 1983) and United Computer Programming Center (April 1981 to October 1981). Mr. Valena started his career as a Programmer/ Trainee at Mini-Systems Inc. in 1980. He graduated from the University of the Philippines with a Bachelor of Arts in Social Sciences major in Economics in 1983.

Four of the Directors and most of the executive officers mentioned above have held their positions for at least five years. Executive officers with the rank of Assistant Vice-President and above are appointed annually by the Board of Directors in its Organisational Board Meeting right after the shareholders meeting which is held annually every last Monday of June. None of the Bank's executive officers are related to one another or to any of the Bank's Directors. There are no binding contracts or arrangements with regards to the tenure of the Bank's executive officers. All of the officers identified above are Filipino citizens, except for Mr. Yasuhiro Matsumoto who is a citizen of Japan.

Employees

As of 30 September 2017, the Bank (excluding its subsidiaries) had 4,114 permanent employees, of which 62.9 per cent., were engaged in a professional managerial capacity and classified as "officers". As of 30 September 2017, approximately 52.6 per cent. of the Bank's employees (excluding its subsidiaries) are employed at the head office and 47.4 per cent. are employed at its branches.

The following table presents the number of employees by category as of the dates indicated:

	As of 31 December		
Category	**2014**	**2015**	**2016**
Staff	1,600	1.660	1,740
Officers	2,212	2,388	2,499
Total	**3,812**	**4,048**	**4,239**

All of the Bank's non-managerial employees, other than those expressly excluded under the collective bargaining agreement, are represented by an independent union, the RCBC Employees Association.

In December 2016, the Bank (not including its subsidiaries) and the RCBC Employees Association agreed on the three-year economic provisions and the five-year non-economic terms of the collective bargaining agreement for the period 1 October 2016 to 30 September 2021.The Bank believes it has a good relationship with the union and does not anticipate any material issues to arise with respect to the re-negotiation of the collective bargaining agreement.

The Bank has not experienced any strikes in the past five years, and the management of the Bank believes that its relations with its employees are good.

The Bank continues to invest in its employees through various training programs strategically focused on, customer service, sales planning and management, product knowledge, leadership, risk management and technical skills.

The aggregate compensation paid to employees by the Bank for the nine months ended 30 September 2017 was ₱3.1 billion (U.S.$61.0 million).

Principal Shareholders

The Company is a member of the YGC. As of 30 September 2017, PMMIC and affiliates of the YGC owned approximately 52.1 per cent. of the Bank's issued and outstanding shares. As a result, YGC, which is controlled by the Yuchengco family, effectively controls the Bank.

As of 30 September 2017, the Bank had 766 common shareholders of record worldwide.

The following table shows the ten principal shareholders of the Bank, as shown in the Bank's share register as of 30 September 2017:

	Number of Shares	**Per cent. of Total**
Pan Malayan Management and Investment Corporation.	594,248,081	42.45
Cathay Life Insurance Co., Ltd.	326,929,297	23.35
IFC Capitalization (Equity) Fund L.P..	71,151,505	5.08
RCBC Trust Investment Group as Trustee of TA# 75077-8 FAO RCBC Retirement Plan..	56,556,400	4.04
Sybase Equity Investments Corporation....................................	50,072,060	3.58
Government Service Insurance System	46,109,040	3.29
International Finance Corporation..	36,724,137	2.65
Malayan Insurance Co., Inc.	35,941,938	2.62
GPL Holdings, Inc.	22,362,483	1.60
Tripo Asia Limited.	12,836,504	0.92
Total..	**1,252,631,445**	**89.58**

RELATED PARTY TRANSACTIONS

The Bank is a member of the YGC. As of 30 September 2017, the Yuchengco family, primarily through PMMIC and affiliates of the YGC, owned approximately 52.1 per cent. of the Bank's issued and outstanding shares. The Bank, in its ordinary course of business, engage in transactions with the YGC. The Bank's policy with respect to related-party transactions is to ensure that related party transactions are all entered into at arm's length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks.

DOSRI Loans and Deposits

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI (as discussed in BSP Circular No. 423 dated 15 March 2004, as amended). The General Banking Law and BSP regulations require that (a) the amount of individual outstanding loans, other credit accommodations, and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in the bank; (b) unsecured loans, other credit accommodations, and guarantees to DOSRI should not exceed 30.0 per cent. of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower; (c) the total outstanding loans, other credit accommodations and guarantees to DOSRI may not, without the prior approval of the Monetary Board, exceed 15.0 per cent. of the bank's total loan portfolio or 100.0 per cent. of the bank's net worth, whichever is lower.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts as of the period indicated:

	As of 31 December			As of 30 September	
	2014	**2015**	**2016**	**2016**	**2017**
	(Amount in ₱ millions, except for percentages)				
Total outstanding DOSRI loans:	5,412	1,143	587	719	552
Percentage of DOSRI loans to total loans (per cent.)	2.09	0.44	0.23	0.25	0.16
Percentage of unsecured DOSRI loans to total DOSRI loans (per cent.)	7.67	5.46	10.22	8.34	13.41
Percentage of past due DOSRI loans to total DOSRI loans (per cent.)	0.02	0.08	0.05	0.06	0.11
Percentage of non-accruing DOSRI loans to total DOSRI loans (per cent.)	0.02	0.08	0.05	0.06	0.11

BSP Circular No. 560, issued on 31 January 2007, as amended by BSP Circular Nos. 914 dated 23 June 2016 and 654 dated 12 May 2009, provides the rules and regulations that govern loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, other credit accommodations, and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0 per cent. of the net worth of the lending bank/quasi-bank, provided that the unsecured portion shall not exceed 5.0 per cent. of such net worth. Further, the total outstanding loans, credit accommodations, and guarantees to all subsidiaries and affiliates shall not exceed 20.0 per cent. of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer, and/or stockholder of the lending institution. As of 31 December 2014, 2015 and 2016 and 30 September 2017, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0

per cent. of the Bank's net worth, and the unsecured portion did not exceed 5.0 per cent. of such net worth.

BSP Circular No. 654, issued on 12 May 2009 and as amended by BSP Circular No. 914 dated 23 June 2016, provides a separate individual limit (25.0 per cent. of the net worth of the lending bank/quasi-bank) to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, provided that the unsecured portion thereof shall not exceed 12.5 per cent. of such net worth. Such subsidiaries and affiliates should not be related interests of any of the director, officer, and/or stockholder of the lending bank/quasi-bank. As of 31 December 2014, 2015 and 2016 and 30 September 2017, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.0 per cent. of the Bank's net worth, and the unsecured portion did not exceed 12.5 per cent. of such net worth.

The year-end balances as of 31 December 2016 and 30 September 2017 in respect of subsidiaries included in the Bank's financial statements are as follows:

	As of 31 December 2016	As of 30 September 2017
	(₱ millions)	
Loans and receivables	-	-
Deposit liabilities	2,080	2,010

The income and expenses for the year ended 31 December 2016 and for the nine months ended 30 September 2017 in respect of subsidiaries included in the Bank's financial statements are as follows:

	For the year ended 31 December 2016	For the nine months ended 30 September 2017
	(₱ millions)	
Interest income	-	-
Interest expense (on deposits)	4	5

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

The significant inter-company transactions and outstanding balances of the Bank with its subsidiaries were eliminated in consolidation. Other significant related party transactions of the Bank are discussed in the notes to the financial statements included in this Offering Circular.

PHILIPPINE BANKING INDUSTRY

The following is a general discussion of the Philippine banking industry. It is based on the laws, regulations and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all the aspects of the industry that may be relevant to a decision to purchase, own or dispose of the Securities. Prospective purchasers should consult their advisers as to the consequences of acquiring, holding and disposing of the Securities.

The banking industry in the Philippines is composed of universal banks, commercial banks, thrift banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks, cooperative and Islamic banks.

As of September 2017, the commercial banking sector consisted of 21 universal and 22 commercial banks. Of the 21 universal banks, 12 are private domestic banks, three are Government-owned and six are foreign bank branches. Of the 22 commercial banks, five are private domestic banks, two are subsidiaries of foreign banks and 15 are branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, invest in the equity of businesses not related to banking and own up to 100.0 per cent. of the equity in a thrift bank, a rural bank or financial or non-financial allied enterprises. A publicly-listed universal or commercial bank may own up to 100.0 per cent. of the voting stock of only one other universal or commercial bank.

Thrift banks are composed of savings and mortgage banks, private development banks, stock savings and loan associations and microfinance thrift banks. These banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, financing for home building and home development, readily marketable debt notes, commercial paper or accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium-and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As of September 2017, there were 57 thrift banks.

Rural and cooperative banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. Rural banks are privately owned and managed while cooperative banks are owned by cooperatives or federations of cooperatives. As of September 2017, there was a combined total of 492 rural and cooperative banks.

Specialised Government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**), and Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium-term and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform programme. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends – liberalisation, and mergers and consolidation.

The Bank faces competition from foreign banks in part as a result of the liberalisation of the banking industry by the Government.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60.0 per cent. of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of ten new foreign bank branches in 1995. Since 1994, a number of foreign banks which have greater financial resources than the Bank have been granted licences to operate in the Philippines. Such foreign banks have generally focused their operations on larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market but have, as a result, caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. As of September 2017, there were 21 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

In July 2014, Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721) (the “Act”) was issued and approved. The Act reopened the domestic banking sector to foreign banks whose full access was closed as of 2007.

Subject to prior Monetary Board approval of the applicants, foreign banks may be authorized to operate in the Philippines through any one of the following modes of entry (a) acquiring up to 100 per cent. of the voting stock of an existing bank; (b) investing in up to 100 per cent. of the voting stock of a new banking subsidiary incorporated in the Philippines; or (c) establishing branches with full banking authority. Foreign banks applying for entry into the Philippine banking system will be subjected to the statutory and regulatory guidelines set forth in the Act and its implementing guidelines. Among the key amendments of the law was the removal of the ranking requirement for foreign banks and the addition of the applicants banks being widely-owned and publicly-listed in the country of its origin. In addition, the law now allows authorized foreign banks to participate in the bidding and foreclosure sales of mortgaged real property (including lands) as well as to avail of enforcement and other proceedings and even take possession (but not title) to such mortgaged property for a period of five years. The foreign banks must, however, transfer its rights over the mortgaged property to a qualified Philippines national within the period of five years. The implementing rules and regulations of the Act were approved by the Monetary Board of the BSP and were issued as BSP Circular No. 858 on 21 November 2014.

The Bank faces competition from domestic banks in part as a result of mergers and consolidation in the banking industry. In the domestic market, prior to 2000, many banks expanded their networks in order to tap low-cost retail deposits following the relaxation of restrictions on branch banking. As a result, the Philippine banking market is relatively fragmented by comparison with other Asian countries. Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives to investors who purchase a controlling stake in a bank. Accordingly, the coverage of reliefs and incentives for mergers and consolidations now includes the purchase and acquisition of a majority or all of the outstanding shares of stock of a bank.

Based on BSP data, since the new package of incentives took effect in September 1998, there have been 102 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to overall competition levels since market share remained relatively well dispersed among the remaining players.

BANKING REGULATION AND SUPERVISION

General

The New Central Bank Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791, the **General Banking Law**) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks, mortgage banks, development banks, Islamic banks, rural banks, stock savings and building and loan associations as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The Manual is the principal source of rules and regulations for the operation of banks in the Philippines. The Manual contains regulations applicable to universal banks, commercial banks, savings banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programs, and trust and other fiduciary functions, of the relevant financial intermediary. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The Manual and other BSP rules and regulations are principally implemented by the Supervision and Examination Sector (the **SES**) of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779, and pawnshops under Presidential Decree No. 14).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a commercial bank; (ii) the powers of an investment house; and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0 per cent. of the equity in a thrift bank, a rural bank, or a financial or non-financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0 per cent. of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100 per cent. of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects; (ii) rent out safety deposit boxes; (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness, and all types of notes; and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small-and medium-scale industries, including venture capital companies, companies engaged in stock brokerage, notes dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0 per cent. of the net worth of the bank. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0 per cent. of the net worth of the bank.

Minimum Capitalisation

Under the Manual of Regulations for Banks, universal banks, such as the Bank, are required to have capital accounts of at least ₱3 billion (for head office only); ₱6 billion (for up to ten branches); ₱15 billion (for 11 to 100 branches); and ₱20 billion (for more than 100 branches). Commercial banks are required to have capital accounts of at least ₱2 billion (for head office only); ₱4 billion (for up to ten branches); ₱10 billion (for 11 to 100 branches); and ₱15 billion (for more than 100 branches). Thrift banks with a head office in the National Capital Region (**NCR**) are required to have capital accounts of at least ₱500 million (for head office only); ₱750 million (for up to ten branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with head office in all other areas outside NCR are required to have capital accounts of at least ₱200 million (for head office only); ₱300 million (for up to ten branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches).

Capital Adequacy Requirements

Basel II (the Revised International Convergence of Capital Measurement and Capital Standards) was issued on 26 June 2004 by the BCBS, an international committee of banking supervisory authorities, to replace Basel I, which was issued in 1988 and amended in 1996. On 2 June 2006, the Monetary Board of the BSP approved the guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II, for implementation on 1 July 2007. On 16 December 2010 and on 13 January 2011, the BCBS issued its most recent guidelines on Basel III, a series of amendments to the Basel II framework.

The BCBS's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2.0 per cent. (before the application of regulatory adjustments) to 4.5 per cent. (after the application of stricter regulatory adjustments). The total Tier 1 capital requirement will increase from 4.0 per cent. to 6.0 per cent. In addition, banks will be required to maintain, in the form of common equity (or its equivalent), a capital conservation buffer of 2.5 per cent. to withstand future periods of stress, bringing the total common equity (or equivalent) requirement to 7.0 per cent., the total Tier 1 requirement to 8.5 per cent., and the total capital requirement (which remains unchanged at 8.0 per cent., before the additional buffer) to 10.5 per cent.

If there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of zero per cent. to 2.5 per cent. of common equity (or other fully loss absorbing capital) is to be applied as an extension of the capital conservation buffer. The BSP will specify further capital requirements for SIFIs in due course. These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a SIFI.

The Basel III regulations also include more stringent definitions of Tier 1 Capital and Tier 2 Capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

The impact of these reforms, if implemented fully as per the BCBS's guidance, will be to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain. The reforms are expected to be implemented beginning on 1 January 2014.

To align with international standards, the BSP has adopted the BCBS's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 Capital and Tier 2 Capital with the issuance of BSP Circular No. 709, issued on 10 January 2011.

On 5 January 2012, the Monetary Board approved the BSP's implementation plans for the adoption of Basel III standards. BSP Memorandum No. M2012-002 outlined the BSP's proposed new minimum ratios and conservation buffers. The revised risk-based capital adequacy framework (which will also cover risk measurement enhancement and provisions concerning the use of third party credit assessment agencies) is set to be adopted in full starting on 1 January 2014. In March 2012, the BSP also circulated a discussion paper providing draft guidelines for Basel III implementation in the Philippines starting on 1 January 2014.

Philippine banks have been invited to comment on the discussion paper, which covers the following: (i) new categorisation of the capital base with Tier 1 being composed of Common Equity Tier 1 (**CET1**) capital and Additional Tier 1 capital and elimination of the subcategories of Tier 2 Capital; (ii) revised eligibility criteria for the different categories of regulatory capital; (iii) regulatory adjustments to be deducted from CET1 in a full deduction approach; (iv) higher minimum capital requirements; (v) loss absorbency of regulatory capital at the point of non-viability; (vi) introduction of a framework to promote the conservation of capital and the build-up of adequate buffers above the minimum that can be drawn down in times of periods of stress; and (vii) additional disclosure requirements.

On 21 September 2012, BSP Circular No. 768 was issued, which provided that Hybrid Tier 1 and Lower Tier 2 Capital must have loss absorption features, namely, that the instrument would be written off or converted into common equity upon the occurrence of a trigger event determined by the BSP.

On 15 January 2013, BSP Circular No. 781 was issued, which provided for the Basel III Risk-Based Capital Requirements. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be no less than 10 per cent. on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 Capital ratio of 6.0 per cent. and 7.5 per cent. respectively. A capital conversion buffer of 2.5 per cent. comprised of CET1 capital, shall also apply.

On 15 February 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Through this, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks: (i) subjecting investors to a client suitability test; (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that the abovementioned requirements apply in relation to all prospective investors.

The proposed reforms were implemented on 1 January 2014.

On 29 October 2014, the BSP issued Circular No. 856 on the Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III (the **Guidelines**). The Guidelines were issued in accordance and essentially aligned with the reform packages proposed by Basel III specifically on global systemically important banks (**GSIBs**) and Domestic Systemically Important Banks (**DSIBs**). It was explained that the broad aim of the policies is to reduce the probability of failure of DSIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic or real economy. It is intended that the submission of data requirements for the identification of DSIBs will take effect starting with 2014 data while compliance with the additional higher loss absorbency requirement will be phased in from 1 January 2017 with full implementation envisioned by 1 January 2019.

The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as DSIBs. In assessing DSIBs, supervisory judgment may also be utilized based on the principles set forth in the circular. Using cluster analysis, DSIBs will be initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually, and DSIBs reallocated as a result.

Banks identified as DSIBs will be required to have higher loss absorbency (**HLA**). This higher requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through Common Equity Tier 1 (CET1) capital.

The magnitude of additional loss absorbency for the higher populated bucket will be 2.5 per cent. of risk-weighted assets at all times, with the initial empty bucket at 3.5 per cent. of risk-weighted assets, and 1.5 per cent. for the lower bucket:

Bucket	**Score Range**	**Minimum additional loss absorbency (common equity as a percentage of risk-weighted assets)**
3 (empty)	B-C	3.5 per cent.
2	A-B	2.5 per cent.
1	Cut-off point – A	1.5 per cent.

The HLA requirement for DSIBs is envisioned to be on top of the capital conservation buffer (**CCB**) under BSP Circular No. 781. The total CET1 capital requirement for DSIBs will be as follows:

Bucket	**Minimum CET1 Requirement (a)**	**Capital Conservation Buffer (b)**	**DSIB HLA Requirement (c)**	**Total Additional CET1 Requirement (b+c)**	**Total Required CET1 (a+b+c)**
3 (empty)	6.0 per cent.	2.5 per cent.	3.5 per cent.	6 per cent.	12.0 per cent.
2	6.0 per cent.	2.5 per cent.	2.5 per cent.	5 per cent.	11.0 per cent.
1	6.0 per cent.	2.5 per cent.	1.5 per cent.	4 per cent.	10.0 per cent.

Transitional arrangements to implement the HLA requirement will be implemented. In the case of banks included in the first list of DIBS (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement will be phased-in starting 1 January 2017, with full compliance ion 1 January 2019. After the phase-in period, banks identified as DSIBs will have 18 months to comply with the required HLA.

Data Cut-Off	**Release of DSIBs List**	**Compliance Period**
December 2014	June 2015	Phased-in: 1 January 2017 – 1 January 2019
December 2015	June 2016	Phased-in: 1 January 2018 – 1 January 2019
December 2016	June 2017	1 January 2019 – 31 December 2019
December 2017	June 2018	1 January 2020 – 31 December 2020
December 2018	June 2019	1 January 2021 – 31 December 2021

The circular likewise imposes capital distribution constraints should a DSIBs capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

Restrictions on Distributions	**Level of CET 1 Capital**	
	Bucket 1	Bucket 2
No distribution (until the minimum CET1, CCB, and more than 50 per cent. of the DSIB HLA requirements are met; and conditions (a) and (c) below are complied with.)	<9.25 per cent.	<9.75 per cent.

Restrictions on	Level of CET 1 Capital	
50 per cent. of earnings may be distributed (if the minimum CET1, CCB, and more than 50 per cent. of the DSIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>9.25 per cent. – 10.0 per cent.	>9.75 per cent. – 11.0 per cent.

A DSIB will not be subject to any restriction on distribution if the following conditions are met:

a. Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;

b. Compliance with total required CET1 (under the circular) before distribution;

c. Compliance with minimum capital ratios after distribution.

BSP Circular No. 856 (2014) provided the implementing guidelines on the framework for dealing with DSIBs in accordance with reform packages proposed by the Basel Committee on Banking Supervision. Meanwhile, BSP Circular No. 904 (2016) provided the guidelines on the recovery plan that is required to be submitted by DSIBs, which forms an integral part of the ICAAP process document required to be submitted every 31 March of each year.

Moreover, the BSP adopted the Basel III leverage ratio framework under BSP Circular No. 881 (2015). The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5 per cent. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5 per cent. minimum but covered institutions are required to submit periodic reports.

Banks also face new liquidity requirements under Basel III's new liquidity framework, namely, LCR and NSFR. The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 per cent. which will then be increased to 100 per cent. beginning 1 January 2019.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. The BSP adopted Basel III's LCR under BSP Circular No. 905 (2016), which initially covers universal and commercial banks, and prescribed: (i) that under a normal situation, the value of the liquidity ratio shall be no lower than 100 per cent. on a daily basis and (ii) an observation period from 1 July 2016 to the end of 2017, during which period the banks are required to submit quarterly reports to the BSP.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency. Under Subsection X253.1 of the Manual of Regulations for Banks, commercial banks (including the Bank) are required to maintain regular reserves of 20.0 per cent. against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, Peso deposits lodged under Due to foreign banks and Peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, 4.0 per cent. against long-term negotiable CTDs issued under BSP Circular No. 304 (2001), 7.0 per cent. against long-term negotiable CTDs issued under BSP Circular No. 824 (2014), 4.0 per cent. against deposit substitutes evidenced by repo agreements, and 6.0 per cent. against bonds.

Loan Limit to a Single Borrower

Under the General Banking Law, the total liabilities of any person, company, corporation or firm to a commercial banking corporation and to a savings bank for money borrowed shall at no time exceed 20.0 per cent. of the net worth of such bank (or 30.0 per cent. of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board. According to BSP Circular No. 425 (2004) as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0 per cent.

A circular issued by the BSP in May 2009 amended the ceiling on loans to subsidiaries and affiliates. As a result, the total liabilities of subsidiaries and affiliates of banks engaged in energy and power generation, shall at no time exceed 25.0 per cent. of the bank's net worth, while the unsecured amount shall not exceed 12.5 per cent. of the bank's net worth. Subsequently, the BSP issued Circular No. 712 (2011) adopting the amendments of the Monetary Board increasing the ceiling on loans by an additional 10-25 per cent. of the net worth of the bank provided that (a) certain types and levels of securities are provided or (b) the funds will be used for undertaking infrastructure and/or development projects under the Public-Private Partnership (**PPP**) Program of the Government duly certified by the Secretary of Socio-Economic Planning.

On 9 February 2011, the BSP issued an amendment to the Regulations on Single Borrower's Limit. The amendment allowed for increases (on top of the 20.0 per cent. referred to above) on the amount of loans, credit accommodations and guarantees that a bank may extend to a borrower. The following are the increases, subject to satisfaction of certain conditions: (a) an additional 10.0 per cent. of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance; (b) an additional 25.0 per cent. of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance infrastructure and/or development projects under the Government's PPP Program; (ii) these additional liabilities should not exceed 25.0 per cent. of the net worth of the bank; and (iii) the additional 25 per cent. shall only be allowed for a period of three years from 6 December 2010; and (c) an additional 15.0 per cent. of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of a lending bank which is also engaged in energy and power generation until 3 March 2014 and (d) an additional 25.0 per cent. of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are granted to entities which act as value chain aggregators of the lending bank's clients and/or economically-linked entities that are also actors/players in the value chain, provided that such increase shall apply only to loans other than loans to related parties of the lending bank and loans extended to DOSRI of the lending bank. The additional 25.0 per cent. ceiling shall be available only for a period of three years from the effectivity of BSP Circular No. 908 (2016), unless otherwise extended by the BSP.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred letters of credit (**LCs**) less margin deposits and guarantees. Except as specifically provided in the Manual, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations.

Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

Among the items excluded from the determination of the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest; (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (**REST**) limit for universal, commercial, and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. For purposes of the circular, a stress test will be undertaken on a bank’s Real Estate Exposure and other real estate property under an assumed write-off rate of 25 per cent.

For universal and commercial banks, the prudential REST limits are 6 per cent. of CET 1 capital ratio and 10 per cent. of risk-based capital adequacy ratio, on a solo and consolidated basis under the prescribed write-off rate.

Real estate exposures and other real estate property refer to loans or transactions or activities for purposes of financing or engaging in real estate activities as defined in Memorandum No M-2012-046, and include: (a) real estate loans for purposes of financing real estate activities, consisting of: (1) residential real estate loans to individual households for occupancy; and (2) commercial real estate loans to individuals, land developers or construction companies, and others, such as: real estate brokers, real estate lessors, property management companies, holding companies and other corporate borrowers; (b) investments in debt securities issued by land developers or construction companies, and other corporate borrowers as listed above; and (c) investments in equity securities issued by land developers or construction companies, and other corporate borrowers as listed above including those of issued by holding companies provided that the proceeds shall be invested by the holding company in its subsidiary corporation engaged in real estate activities. Real estate exposures shall not include loans and investments in debt and equity securities for construction of highways, streets, bridges, tunnels, railways, and other infrastructure for public use. Other real estate property shall include those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale.

Trust Regulation

The Manual contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual. The Bank may, under its charter documents, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

An FCDU is a unit of a local bank or of a local branch of a foreign bank authorised by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorised to operate an expanded FCDU. Pursuant to BSP Circular No. 854 (2014), new entrant thrift banks with a net worth or combined capital accounts of at least ₱1 billion if they are located in Metro Manila, and ₱250.0 million if they are located outside Metro Manila, may be authorised to operate FCDUs. Existing thrift banks with a net worth or combined capital accounts of at least ₱325 million if they are located in Metro Manila, and ₱250.0 million if they are located outside Metro Manila, may be authorised to operate FCDUs.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units (**OBUs**) and other FCDUs; (c) invest in foreign currency-denominated debt instruments; (d) grant short-term foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs. In addition to the foregoing, commercial banks and universal banks may (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; and (b) on request/instruction from its foreign correspondent banks. Provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU, they may (i) issue LCs for a non-resident importer in favour of a non-resident exporter; (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the LC; (iii) make payment to the order of the non-resident exporter; and (iv) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain a 100.0 per cent. cover for their foreign currency liabilities. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0 per cent. of their foreign currency deposit liabilities as a form of foreign exchange cover.

Effective on 1 January 2018 however, pursuant to BSP Circular No. 946, the liquid asset cover requirement for FCDU/EFCDU liabilities of universal and commercial banks shall be 0 per cent., and for thrift, rural, and cooperative banks, the cover requirement shall be 30.0 per cent.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only.

Commercial and universal banks are generally prohibited from lending on a secured basis in an amount exceeding 60.0 per cent. of the appraised value of land and insured improvements, except for (a) residential loans not exceeding ₱3.5 million; (b) housing loans extended or guaranteed under the Government’s National Shelter Program, which shall be allowed a maximum value of 70.0 per cent. of the appraised value; and (c) subject to certain conditions, loans for home-building and subdivision development for low-income and middle-income families and other housing loans, which may be granted up to an 80.0 per cent. ceiling. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0 per cent. of the appraised value of the security.

In accordance with the BSP Circular No. 855 issued on 29 October 2014, BSP-supervised financial institutions are mandated to have adequate and effective credit risk management systems commensurate to their credit risk-taking activities. The BSP shall evaluate the financial institution’s credit risk management system on both the individual and subsidiary levels, and if the BSP determines that the financial institution’s risk exposures are excessive relative to its capital, the BSP may direct the institution to reduce its exposure to an appropriate level. A loan may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan. Such collateral must have an established market and the valuation methodology used is sound. In the case of real estate collateral, the maximum collateral value shall be 60 per cent. of its appraised value. A loan may also be considered as secured to the extent covered by a third party financial guarantee or surety arrangement where the credit enhancement provider is itself considered to be of high credit quality (credit rating of at least AA or equivalent) or is considered to be such by the BSP. Finally, a loan may be secured by a combination of acceptable collateral and guarantee arrangements as defined above, provided such arrangements are independent of one another for credit enhancement purposes.

Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed.

Mandatory Lending Requirements

BSP regulations currently provide that commercial banks should set aside 25.0 per cent. of loanable funds for loans to the agricultural sector, with 10 per cent. of such funds being made available exclusively to agrarian reform beneficiaries. Any excess compliance in the 10.0 per cent. agrarian reform credit may be used to offset a deficiency, if any, in the 15.0 per cent. other agricultural credit, but not vice versa. Loanable funds are defined to include the net increase in a bank's funds from 10 April 2010. However, a bank may temporarily meet all or a portion of its agrarian reform and agriculture lending requirements by investing in certain Government notes under certain conditions.

Republic Act No. 9501 provides that for a period of ten years from 17 June 2008, all lending institutions shall set aside at least 8.0 per cent. for loans to micro and small enterprises and at least 2.0 per cent. for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0 per cent. of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This requirement is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0 per cent. of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

Furthermore, the Barangay Micro Business Enterprises Act (Republic Act No. 9178) provides incentives to private banks and financial institutions extending credit to Barangay Micro Business Enterprises (**BMBEs**). Accordingly, loans from whatever sources granted under the foregoing Act to BMBEs shall be considered as part of alternative compliance with the rules on reservation of funds for the agricultural sector and for small and medium enterprises.

Qualifications of Directors and Officers

Under the Manual, bank directors and officers must meet certain minimum qualifications, primarily that of being fit and proper for the position of director on matters of, but not limited to, integrity, probity, competence, education, knowledge, and experience. In addition, directors must be at least 25 years old and have a college degree or have at least five years' business experience, while officers must be at least 21 years old and have a college degree, or have at least five years' banking or trust experience, and must have completed the prescribed seminar on corporate governance.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offence involving dishonesty or breach of trust or have been declared insolvent or incapacitated; (b) persons who have been removed by the Monetary Board; (c) persons who refuse to disclose business interests; (d) resident directors who have been absent for more than half of directors' meetings; (e) persons who are delinquent in their obligations; (f) persons who have been found to have wilfully refused to comply with applicable banking laws or regulations; and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of an institution regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as permitted by the Monetary Board, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

Loans to DOSRI

The amount of individual loans to DOSRI, of which 70.0 per cent. must be secured, should not exceed the unencumbered amount of the relevant DOSRI's outstanding deposits and book value of the DOSRI's paid-in capital investment in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0 per cent. of the bank's net worth or 15.0 per cent. of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0 per cent. of their outstanding loans, other credit accommodations and guarantees. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

Pursuant to BSP Circular No. 914 issued in June 2016, loans, other credit accommodations, and guarantees granted by a bank to its DOSRI for the purpose of project finance, shall be exempted from the 30 per cent. unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses against Loans

In accordance with BSP Circular No. 241 dated 20 January 2017, loans, investments, receivables, or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays. The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten days.

BSP regulations allow loans and advances to be written off as bad debts only if they have been past due for six months or more and can be justified as uncollectible. The Board of Directors have discretion as to the frequency of write-offs provided that these are made against provisions for probable losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to DOSRI.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. Congress passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act, which took effect on 14 May 2006, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV

Act takes effect or until 14 November 2007. The amendatory law also extended the tax exemptions and fee privileges of SPVs to those transactions that occur up to 14 May 2008.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall be equivalent to 1 per cent. of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one per cent., less loans which are considered non-risk under existing laws, rules and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision allows banks, with prior Monetary Board approval, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

BSP Circular No. 854 (2014), prescribes the amended minimum capitalization for banks in order to be given authority to establish branches, as follows:

Bank Category	Minimum Capital (in Billions)
Universal Banks with more than 100 branches	₱20.0
Universal Banks with 11 to 100 branches	₱15.0
Universal Banks with up to 10 branches	₱6.0
Universal Banks with Head Office only	₱3.0
Commercial Banks with more than 100 branches	₱15.0
Commercial Banks with 11 to 100 branches	₱10.0
Commercial Banks with up to 10 branches	₱4.0
Commercial Banks with Head Office only	₱2.0
Thrift Banks:	
With Head Office within NCR and with more than 50 branches	₱2.0
With Head office in all other areas outside NCR and with more than 50 branches	₱0.8
Rural and Cooperative Banks:	
Head Office in NCR and more than 50 branches	₱0.2
Head Office in all other areas outside NCR (all cities up to third class municipalities) with more than 50 branches	₱0.08
Head Office in all other areas outside NCR (fourth to sixth class municipalities) with more than 50 branches	₱0.04

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch may be opened within six months from the date of approval (extendable for another six-month period, upon the presentation of justification therefore). Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig, Quezon and San Juan. However, under BSP Circular No. 728 (2011), the restrictions on the establishment of branches was lifted as of 1 July 2014, subject to certain requirements.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10 billion and thrift banks with capital of at least ₱3 billion that have less than 200 branches in restricted areas as of December 2010 will be allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalisation approach started on 1 July 2014, pursuant to which all banks (except rural and cooperative banks that are not allowed to establish branches in Metro Manila) are able to apply and establish branches in previously restricted areas, subject to certain requirements.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are now allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

Branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that cater primarily to the credit needs of BMBEs duly registered under Rep. Act No. 9178 may still be established anywhere upon the fulfilment of certain conditions.

Anti-Money Laundering Law

The AMLA was passed on 29 September 2001 and subsequently amended, with the most recent amendment approved on 15 February 2013. Under its provisions, as amended, certain financial intermediaries, including a bank's offshore banking units, quasi- banks, trust entities, non-stock savings and loan associations, all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Philippines' Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱500,000 within one banking day.

These institutions are also required to submit a "suspicious" transaction report if there are reasonable grounds to believe that any amounts processed are the proceeds of money laundering activities. These transactions are required to be reported to the AMLC of the BSP within five working days from the occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 days. The Court of Appeals, upon verified *ex parte* petition by the AMLC and after determination of the probable cause that the monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, may issue a freeze order, which shall be effective immediately, over such monetary instrument or property.

BSP Circular No. 495 (2005) as amended by BSP Circular 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and bring to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under the AMLA.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the ARRS, a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient Board of Directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention programme duly approved by the Board of Directors; (c) robust internal controls and audit; and (d) effective implementation. Institutions that are subject to the AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for ten years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, R.A. No. 10167 and R.A. No. 10168. R.A. No. 10167 amended Section 10 of the AMLA, which requires that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals must act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20-day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an *ex parte* application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)."

R.A. No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offence is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organisation, association, or group; or (c) by an individual terrorist".

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA to include "covered persons, natural and juridical." Additions to the enumeration of covered persons include jewellery dealers for transactions in excess of ₱1 million and the Land Registration Authority for real estate purchases in excess of ₱500,000. Furthermore, the enumeration of predicate crimes expanded to include 20 additional crimes including bribery, extortion, malversation of public funds, fraud and financing of terrorism.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP circular no. 950 which further expanded covered persons to include company service providers, and person who manage their client's money, security or other assets, manage bank or securities accounts, organise funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

In July 2017, Republic Act No. 109271 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5.0 million or its equivalent in any other currency. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an ex parte petition by the AMLC shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorised to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or where there is probable cause to believe that funds are to be used in connection with terrorist activities.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the ***Clearing Systems****) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Bank, the Trustee nor any Agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Information in this section has been derived from the Clearing Systems.*

Book-entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective accountholders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an accountholder of either system.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form.

Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Bank, the Agents or any Dealer will be responsible for any performance by Clearstream, Luxembourg or Euroclear or their direct or indirect participants or accountholders of their obligations under the rules and procedures governing their operations nor with the Issuer, any Agent or any Dealer have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The information provided below does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes. In particular, the information does not consider any specific facts or circumstances that may apply to a particular purchaser. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or of any person acquiring, selling or otherwise dealing with the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. The statements do not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. The tax treatment of a prospective holder of the Notes may vary depending on such Noteholder's particular situation and these statements do not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the particular tax consequences for such Noteholder in relation to the tax consequences of purchasing, owning, and disposing of Notes, including the effect of any state or local taxes, under the tax laws applicable in the Philippines and each country of which they are residents or of which they have tax exposures.

Philippines Taxation

The following is a general description of certain Philippine tax aspects of the Notes. It is based on the present provisions of Philippine tax laws, in particular the Philippine National Internal Revenue Code (Republic Act No. 8424, as amended by Republic Act No 10963, the **Tax Code**), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective Noteholder should consult with his own tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Notes.

The tax in the Philippines on the issuance of and transactions concerning debt instruments may vary depending upon several factors, including whether such instruments are issued by a depository bank under the expanded FCDU or as a regular banking unit.

As used herein, the term “resident alien” refers to an individual whose residence is within the Philippines and who is not a citizen thereof; a “non-resident alien” is an individual who is neither a citizen nor a resident of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines,” otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.” A “resident foreign corporation” is a foreign corporation engaged in trade or business in the Philippines; and a “non-resident foreign corporation” is a foreign corporation not engaged in trade or business in the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic; while the term "domestic" when applied to a corporation means a corporation created or organised in the Philippines or under its laws.

Documentary Stamp Taxes

Beginning 1 January 2018, a documentary stamp tax is imposed upon every original issue of debt instruments such as bonds and notes, at the rate of ₱1.50 on each ₱200, or fractional part thereof, of the face value of such debt instruments. The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted or transferred when the obligation or right arises from Philippine sources, the property is situated in the Philippines, or where the object of the contract is located or used in the Philippines. The issuance of the Notes will generally be subject to Philippine documentary stamp tax, which shall be for the account of the Bank. No documentary stamp tax is imposed on a subsequent sale or disposition of the Notes if there is no change in the maturity date or remaining period of coverage from that of the original instrument.

The Bank has undertaken to pay the documentary stamp tax on the Notes, to the extent required by the Tax Code and other applicable laws and regulations.

Interest on the Notes

Under the Tax Code, any income of non-residents, whether individuals or corporations, and of depositary banks under the expanded foreign currency deposit system, from foreign currency transactions with FCDUs is exempt from income tax. However, net income of depositary banks under the FCDU system from foreign currency transactions as may be specified by the Secretary of Finance, upon recommendation of the Monetary Board, shall be subject to the regular income tax payable by banks. Accordingly, if the Notes are issued or booked by the Bank's FCDU, interest received by Noteholders who are non-resident individuals, whether or not doing business in the Philippines, and non-resident foreign corporations are exempt from withholding tax. On the other hand, interest income on the Notes earned from transactions with FCDUs by residents, individual citizens of the Philippines, resident aliens, domestic corporations (except depositary banks under the foreign currency deposit unit system) and resident foreign corporations is subject to a final withholding tax at a rate of 20 per cent.

Sale or other Disposition of the Notes

A Noteholder will recognise a gain or loss on the sale, exchange, retirement or other disposition of the Notes in an amount equal to the difference between the amount realised from such disposition and such Noteholder's acquisition cost. Such gain or loss is likely to be deemed a capital gain or loss assuming that the Noteholder has recorded its Notes as a capital asset.

Any capital gain realised from the sale, exchange or retirement of the Notes will form part of the gross income of the sellers, for purposes of computing the relevant taxable income and will generally be subject to the following income tax rates: (1) variable rates based on net annual taxable income, the highest of which is 35.0 per cent. of net taxable income of Philippine citizens, Philippine residents and non-resident aliens engaged in trade or business in the Philippines; (2) 25.0 per cent. final withholding tax for sellers who are non-resident aliens not engaged in trade or business in the Philippines; (3) 30.0 per cent. of net taxable income of domestic corporations and resident foreign corporations; and (4) 30.0 per cent. of gross income for sellers which are non-resident foreign corporations. If the Notes are sold by a seller who is an individual and who is not a dealer in securities and who has held the Notes for a period of more than 12 months prior to the sale, then only 50.0 per cent. of any capital gain will be recognised and included in the seller's gross taxable income.

Non-Philippine Noteholders will not be subject to Philippine income or withholding tax in connection with the sale, exchange or retirement of the Notes if (1) such sale, exchange or retirement is made outside the Philippines; or (2) an exemption is available under an applicable tax treaty in force between the Philippines and the country of domicile of the non-Philippine Noteholder and such Noteholder complies with the procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Finally, under Section 32(B)(7)(g) of the 1997 Tax Code, as amended, any gain realised from the sale, exchange or retirement of securities with an original maturity of more than five years from the date of issuance will not be subject to income tax. Therefore, any gains realised by any holder of Notes that have a maturity of more than five years from the date of issuance will not be subject to the Philippine income tax.

Estate and Donor's Taxes

Beginning 1 January 2018, the transfer of the Notes by a Noteholder to his heirs, whether or not such Noteholder was residing in the Philippines, will be subject to an estate tax which is levied on the net estate of the deceased at a fixed rate of 6 per cent.

Beginning 1 January 2018, Noteholders, whether or not citizens or residents of the Philippines, will be subject to donor's tax upon the donation of the Notes to any person at a flat rate of 6 per cent. of the net gifts.

The estate tax, as well as the donor's tax in respect of the Notes, shall not be collected if: (a) the deceased at the time of his death or donation was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines

The tax treatment of a non-resident holder of any of the Notes by jurisdiction outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder’s situation. Each holder of any of the Notes should consult its own tax adviser as to the particular tax consequences on such holder acquiring, owning and disposing of the Notes, including the applicability and effect of any state, local and national laws.

The Proposed Financial Transactions Tax (FTT)

On 14 February 2013, the European Commission published a proposal (the C**ommission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the Philippines) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes—Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

SUBSCRIPTION AND SALE

The Dealers have, in an amended and restated programme agreement dated 5 February 2018 as amended or supplemented from time to time (the **Programme Agreement**), agreed with the Bank a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Bank may also from time to time agree with the relevant Dealer(s) that the Bank may pay certain third party commissions (including, without limitation, rebates to private banks as specified in the applicable Final Terms).

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may cease at any time.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer or its subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer or its subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Notes. Notes issued under the Programme may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

Selling Restrictions

United States

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment except in accordance with Rule 903 of Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S, each Dealer has represented, warranted, undertaken and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant, undertake and agree, that it will not offer, sell or deliver such Notes (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States. Terms used in the two preceding paragraphs have the meanings given to them by Regulation S under the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (the **Code**) and Treasury regulations promulgated thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms each Dealer will be required to represent, undertake and agree (and each additional Dealer appointed under the Programme will be required to represent, undertake and agree) that:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (or any substantially identical successor United States Treasury regulation section, including without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the **D Rules**), (i) that it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person, and (ii) that it has not delivered and it will not deliver within the United States or its possessions Definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6) (or any substantially identical successor United States Treasury regulation section, including without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010);

(d) with respect to each affiliate that acquires Bearer Notes from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and

(e) it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii)) (or any substantially identical successor United States Treasury regulation section, including without limitation, substantially identical successor regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of subparagraphs (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the Code and Treasury regulations promulgated thereunder, including the D Rules.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each issue of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issue and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms. The relevant Dealer agrees that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

Prohibition of sales to EEA Retail Investors

Unless the Final Terms in respect of any Notes specifies "Prohibition of sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area (the **EEA**). For the purposes of this provision:

(a) the expression **retail investor** means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the **Prospectus Directive**); and

(b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Final Terms in respect of any Notes specifies "Prohibition of sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the final terms in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the final terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Bank has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as described in the Prospectus Directive;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (b) to (d) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression **an offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC as amended including by Directive 2010/73/EU and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**FSMA**) by the Bank;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Hong Kong

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes (except for Notes which are a "structured product" as defined in the Securities and Futures Ordinances (Cap 571) of Hong Kong) (the **SFO**) other than (i) to **professional investors** as defined in the Securities and Futures Ordinance and any rules made under the

SFO Ordinance; or (ii) in other circumstances which do not result in the document being a **prospectus** as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) (the **C(WUMP)O**) of Hong Kong or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to **professional investors** as defined in the SFO and any rules made under the SFO.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular appointed under the Programme will be required to acknowledge that this Offering Circular has not been registered and will not be registered as a prospectus with the Monetary Authority of Singapore (the **MAS**). Accordingly, each Dealer has represented, warranted and agreed, and each future Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Notes, whether directly or indirectly, to any persons in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the **SFA**) pursuant to Section 274 of the SFA; (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (c) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor, or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA ;

(b) where no consideration is given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Philippines

THE NOTES BEING OFFERED OR SOLD HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE **SRC**). ANY FUTURE OFFER OR SALE OF THE NOTES WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE NOTES QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.

Any offer or sale of securities within the Philippines is subject to registration unless such offer or sale is made under circumstances in which the securities qualify as exempt securities or pursuant to an exempt transaction under the SRC. The Notes, being securities issued by a bank registered as such under the laws of the Republic of the Philippines, constitute exempt securities within the meaning of Subsection 9.1(e) of the SRC and as such are not required to be registered under the provisions thereof before they can be sold or offered for sale or distribution in the Philippines. Any sale or offer of the Notes, however, can only be made in accordance with the applicable regulations of the Bangko Sentral ng Pilipinas, the Philippine Securities and Exchange Commission, and the Philippine Stock Exchange.

Thailand

Each Dealer has represented, warranted and agreed and each future Dealer appointed under the Programme will be required to represent and agree that it has not made, and will not make, any invitation to any person in Thailand to subscribe for the Notes. The Notes cannot be offered, sold or transferred in Thailand.

PRC

Each Dealer has acknowledged that, according to relevant PRC laws and regulations, the Notes may not be offered or sold directly or indirectly in the PRC to any person other than certain qualified domestic institutional investors, which have acquired specific approval or permission to purchase overseas capital market products in accordance with PRC laws and regulations.

General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank, the Trustee nor any of the Agents or other Dealers shall have any responsibility therefor.

None of the Bank, the Trustee, the Agents and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The upsize and the update of the Programme and the issue of Notes have been duly authorised by resolutions of the board of directors of the Issuer dated 29 February 2016 and 29 January 2018, respectively.

Listing of Notes

Approval-in-principle has been received from the SGX-ST for permission to deal in, and the quotation of, any Notes that may be issued pursuant to the Programme and that are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval-in-principle from, and the admission of any Notes to the Official List of, the SGX-ST is not to be taken as an indication of the merits of the Bank, the Programme or the Notes. Unlisted Notes may be issued under the Programme. The relevant Final Terms in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Notes will trade on the SGX-ST in a minimum board lot size of S$200,000 so long as any of the Notes remain listed on the SGX-ST.

Rating of the Notes

Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating(s) assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Documents Available

Copies of the following documents will, when published, be available for inspection at the Bank's registered office and at the specified office of the Principal Paying Agent:

(a) the Articles of Incorporation and By-Laws of the Bank;

(b) the Bank's audited consolidated financial statements in respect of the financial years ended 31 December 2014, 2015 and 2016;

(c) the Bank's unaudited consolidated financial statements in respect of the nine months ended 30 September 2016 and 2017;

(d) the most recently published audited consolidated and non-consolidated annual financial statements of the Bank and the most recently published consolidated interim financial statements (if any) of the Bank, in each case together with any audit or review reports prepared in connection therewith (where relevant);

(e) the Programme Agreement, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(f) a copy of this Offering Circular; and

(g) any future offering circulars, prospectuses, information memoranda and supplements including Final Terms to this Offering Circular and any other documents incorporated herein or therein by reference.

The Bank currently prepares audited consolidated and non-consolidated accounts on an annual basis, unaudited reviewed condensed consolidated interim accounts on a semi-annual basis and unaudited unreviewed consolidated interim accounts on a quarterly basis.

Clearing Systems

Each series of Bearer Notes will be initially represented by either a Temporary Global Note or a Permanent Global Note that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear and Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and Clearstream, Luxembourg. Each series of Registered Notes will be initially represented by interests in a Global Registered Note and deposited on the issue date thereof with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg. The appropriate Common Code and the ISIN for each series of Bearer Notes or Registered Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Bank since 30 September 2017 and there has been no material adverse change in the financial position or prospects of the Bank since 30 September 2017.

Litigation

Other than as disclosed in the Offering Circular, neither the Bank nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Bank or the Group.

Auditors

The Bank's consolidated financial statements as of and for the years ended 31 December 2014, 2015 and 2016, prepared in accordance with PFRS and included in this Offering Circular, have been audited by Punongbayan & Araullo, independent accountants, in accordance with international auditing standards, respectively, as stated in their reports appearing herein.

Dealers Transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business.

INDEX TO FINANCIAL STATEMENTS

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Report on Review of Condensed Consolidated Interim Financial Statements

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group), which comprise the consolidated statement of financial position as of September 30, 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the nine months ended September 30, 2017 and 2016, and notes to condensed consolidated interim financial statements. Management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

P&A Grant Thornton

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial position of the Group as at September 30, 2017, and its condensed consolidated interim financial performance and condensed consolidated interim cash flows for the nine months ended September 30, 2017 and 2016 are not prepared, in all material respects, in accordance with PAS 34.

Other Matter

We have previously audited the consolidated financial statements of the Group as of December 31, 2016, including the consolidated statement of financial position, which is presented herein for comparative purposes, on which we have rendered our report thereon dated February 27, 2017.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 6616005, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

November 9, 2017

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(Amounts in Millions of Philippine Pesos)

	Notes		**September 30, 2017 (Unaudited)**		December 31, 2016 (Audited)
RESOURCES					
CASH AND OTHER CASH ITEMS	8	**P**	**11,729**	P	15,176
DUE FROM BANGKO SENTRAL NG PILIPINAS	8		**58,143**		66,520
DUE FROM OTHER BANKS	8		**17,937**		25,293
LOANS UNDER REVERSE REPURCHASE AGREEMENT	8		**4,969**		7,889
TRADING AND INVESTMENT SECURITIES - Net	9		**68,091**		75,622
LOANS AND RECEIVABLES - Net	10		**339,099**		306,167
INVESTMENTS IN ASSOCIATES - Net	11		**449**		383
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12		**8,910**		8,876
INVESTMENT PROPERTIES - Net	13		**3,525**		3,229
DEFERRED TAX ASSETS			**2,096**		2,177
OTHER RESOURCES - Net	14		**9,437**		9,861
TOTAL RESOURCES		**P**	**524,385**	P	521,193
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P**	**374,574**	P	353,077
BILLS PAYABLE	16		**28,979**		37,643
BONDS PAYABLE	17		**28,552**		41,595
SUBORDINATED DEBT	18		**9,964**		9,952
ACCRUED TAXES, INTEREST AND OTHER EXPENSES			**3,972**		4,823
OTHER LIABILITIES	19		**13,294**		11,970
Total Liabilities			**459,335**		459,060
EQUITY			**65,050**		62,133
TOTAL LIABILITIES AND EQUITY		**P**	**524,385**	P	521,193

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Amounts in Millions of Philippine Pesos, Except Per Share Data)
(UNAUDITED)

	Notes	2017	2016
INTEREST INCOME			
Loans and receivables		**P 15,828**	P 14,402
Trading and investment securities		**2,157**	2,546
Others		**415**	301
		18,400	17,249
INTEREST EXPENSE			
Deposit liabilities		**2,896**	2,318
Bills payable and other borrowings		**2,360**	3,075
		5,256	5,393
NET INTEREST INCOME		**13,144**	11,856
IMPAIRMENT LOSSES		**1,566**	1,283
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**11,578**	10,573
OTHER OPERATING INCOME			
Service fees and commissions		**2,345**	2,352
Trading and securities gain - net		**1,001**	1,503
Foreign exchange gains - net		**574**	240
Trust fees		**208**	224
Miscellaneous	21	**1,303**	1,383
		5,431	5,702
TOTAL OPERATING INCOME		**17,009**	16,275
OTHER OPERATING EXPENSES			
Employee benefits		**4,469**	4,011
Occupancy and equipment-related		**2,329**	2,143
Depreciation and amortization		**1,422**	1,278
Taxes and licenses		**1,319**	1,370
Miscellaneous	21	**3,459**	4,262
		12,998	13,064
PROFIT BEFORE TAX		**4,011**	3,211
TAX INCOME (EXPENSE)		**(605)**	290
NET PROFIT		**P 3,406**	P 3,501
ATTRIBUTABLE TO:			
Parent Company Shareholders		**P 3,404**	P 3,499
Non-controlling Interests		**2**	2
		P 3,406	P 3,501
Earnings Per Share	24		
Basic		**P 2.43**	P 2.50
Diluted		**P 2.43**	P 2.50

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	Note	2017	2016
NET PROFIT FOR THE PERIOD		**P 3,406**	P 3,502
OTHER COMPREHENSIVE INCOME (LOSSES)			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains (losses) on defined benefit plan		**363**	(1)
Fair value gains (losses) on financial assets at fair value through other comprehensive income		**(86)**	96
Share in other comprehensive income of the associates – actuarial gains on defined benefit plan	11	**4**	-
		281	95
Item that will be reclassified subsequently to profit or loss			
Share in other comprehensive income of the subsidiaries - Translation adjustments on foreign operations		**1**	22
Total Other Comprehensive Income		**282**	117
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**P 3,688**	P 3,619
ATTRIBUTABLE TO:			
Parent Company Shareholders		**P 3,685**	P 3,616
Non-controlling Interests		**3**	3
		P 3,688	P 3,619

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

		ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS									
	Note	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2017		P 13,999	P 3	P 22,635	P 621	P 415	(P 97)	P 24,531	P 62,107	P 26	P 62,133
Transaction with owners											
Cash dividends	20	-	-	-	-	-	-	(771)	(771)	-	(771)
Total comprehensive income for the period		-	-	-	281	-	-	3,404	3,685	3	3,688
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus		-	-	-	3	-	-	(3)	-	-	-
Transfer from surplus to reserve for trust business		-	-	-	-	5	-	(5)	-	-	-
		-	-	-	284	5	-	2,625	2,914	3	2,917
Balance at September 30, 2017		**P 13,999**	**P 3**	**P 22,635**	**P 905**	**P 420**	**(P 97)**	**P 27,156**	**P 65,021**	**P 29**	**P 65,050**
Balance at January 1, 2016		P 13,999	P 3	P 22,635	(P 518)	P 388	(P 97)	P 21,695	P 58,105	P 24	P 58,129
Transaction with owners											
Cash dividends	20	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Total comprehensive income for the period		-	-	-	116	-	-	3,499	3,615	3	3,618
Transfer from surplus to reserve for trust business		-	-	-	-	4	-	(4)	-	-	-
		-	-	-	116	4	-	2,487	2,607	3	2,610
Balance at September 30, 2016		P 13,999	P 3	P 22,635	(P 402)	P 392	(P 97)	P 24,182	P 60,712	P 27	P 60,739

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before tax		P 4,011	P 3,211
Adjustments for:			
Interest income		(18,400)	(17,249)
Interest received		18,096	17,805
Interest paid		(5,427)	(5,511)
Interest expense		5,256	5,392
Impairment losses		1,566	1,283
Depreciation and amortization		1,422	1,278
Dividend income		(219)	(318)
Share in net earnings of associates	11	(65)	(98)
Operating income before working capital changes		6,240	5,793
Decrease (increase) in financial assets at fair value through profit and loss		12,480	(12,172)
Decrease (increase) in financial assets at FVOCI		68	(17)
Decrease (increase) in loans and receivables		(34,194)	6,850
Decrease (increase) in investment properties		(296)	170
Decrease (increase) in other resources		184	(622)
Increase (decrease) in deposit liabilities		21,497	(9,401)
Increase (decrease) in accrued taxes, interest and other expenses		(680)	260
Increase in other liabilities		1,703	2,241
Cash generated from (used in) operations		7,002	(6,898)
Cash paid for taxes		(518)	(672)
Net Cash From (Used in) Operating Activities		6,484	(7,570)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in investment securities at amortized cost		(5,108)	54,506
Acquisitions of bank premises, furniture, fixtures and equipment	12	(955)	(2,579)
Acquisitions of intangibles		(262)	(204)
Cash dividends received		219	661
Net Cash From (Used in) Investing Activities		(6,106)	52,384
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds payable		(13,043)	-
Payments of bills payable		(8,664)	(7,226)
Dividends paid		(771)	(1,008)
Net Cash Used in Financing Activities		(22,478)	(8,234)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(22,100)	36,580
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD			
Cash and other cash items		15,176	14,070
Due from Bangko Sentral ng Pilipinas		66,520	50,617
Due from other banks		25,293	19,685
Loans under reverse repurchase agreement		7,889	-
		114,878	84,372
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
Cash and other cash items		11,729	12,778
Due from Bangko Sentral ng Pilipinas		58,143	65,580
Due from other banks		17,937	32,670
Loans under reverse repurchase agreement		4,969	9,924
		P 92,778	P 120,952

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(Amounts in Millions of Philippine Pesos)
(UNAUDITED)

	Notes	**2017**	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profits before tax		**P 4,011**	P 3,212
Adjustments for:			
Interest income		**(18,400)**	(17,249)
Interest received		**18,096**	17,805
Interest paid		**(5,427)**	(5,511)
Interest expense		**5,256**	5,392
Impairment losses		**1,566**	1,283
Depreciation and amortization		**1,422**	1,278
Dividend income		**(219)**	(318)
Share in net earnings of associates	11	**(65)**	(98)
Operating income before working capital changes		**6,240**	5,794
Decrease (increase) in financial assets at fair value through profit and loss		**12,480**	(12,172)
Decrease (increase) in financial assets at FVOCI		**68**	(17)
Decrease (increase) in loans and receivables		**(34,194)**	6,850
Decrease (increase) in investment properties		**(296)**	170
Decrease (increase) in other resources		**184**	(623)
Increase (decrease) in deposit liabilities		**21,497**	(9,401)
Increase (decrease) in accrued taxes, interest and other expenses		**(680)**	260
Increase in other liabilities		**1,703**	2,241
Cash generated from (used in) operations		**7,002**	(6,898)
Cash paid for taxes		**(518)**	(672)
Net Cash From (Used in) Operating Activities		**6,484**	(7,570)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in investment securities at amortized cost		**(5,108)**	54,506
Acquisitions of bank premises, furniture, fixtures and equipment	12	**(955)**	(2,579)
Acquisitions of intangibles		**(262)**	(204)
Cash dividends received		**219**	661
Net Cash From (Used in) Investing Activities		**(6,106)**	52,384
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of bonds payable		**(13,043)**	-
Payments of bills payable		**(8,664)**	(7,226)
Dividends paid		**(771)**	(1,008)
Net Cash Used in Financing Activities		**(22,478)**	(8,234)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD			
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Loans under reverse repurchase agreement		**7,889**	-
		114,878	84,372
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD			
Cash and other cash items		**11,729**	12,778
Due from Bangko Sentral ng Pilipinas		**58,143**	65,580
Due from other banks		**17,937**	32,670
Loans under reverse repurchase agreement		**4,969**	9,924
		P 92,778	P 120,952

See Notes to Condensed Consolidated Interim Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2016)
(Amounts in Millions of Philippine Pesos, Except Par Value,
Per Share Data and as Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. It also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Parent Company is a 42.45% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The registered address of the Parent Company is Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. PMMIC's registered business address is 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

1.2 Approval of Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements of the Group as of and for the nine months ended September 30, 2017 (including the comparatives for the nine months ended September 30, 2016) and the year ended December 31, 2016 were approved and authorized for issue by the Audit Committee on November 9, 2017.

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This condensed consolidated interim financial statements do not include all of the information required for annual consolidated financial statements, and should be read in conjunction with the annual consolidated financial statements of the Group as of and for the year ended December 31, 2016 which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

This condensed consolidated interim financial statements are presented in Philippine pesos, the Group's functional and presentation currency. All amounts are in millions, except for per share data or when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

The policies have been consistently applied to all periods presented, unless otherwise stated.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's condensed consolidated interim financial statements in accordance with PAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements. Actual results may vary from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Group's last annual consolidated financial statements as of and for the year ended December 31, 2016.

5. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risk in relation to its operating, investing, and financial activities, and the business environment in which it operates. Generally, the Group'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. In managing financial instruments, the Group is exposed to financial risk such as market risk (including foreign currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity risk and credit risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements; hence, they should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2016.

There have been no significant changes in the risk management structure of the Group or in any risk management policies since the previous annual period.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

6.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of September 30, 2017 and December 31, 2016.

	September 30, 2017 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVPL:				
Government securities	P 2,023	P -	P -	P 2,023
Corporate debt securities	1,581	-	-	1,581
Equity securities	162	-	586	748
Derivative assets	546	701	-	1,247
	4,312	701	586	5,599
Financial assets at FVOCI –				
Equity securities	3,762	14	1,744	5,520
Total resources at fair value	**P 8,074**	**P 715**	**P 2,330**	**P 11,119**
Derivative liabilities	**P -**	**P 426**	**P -**	**P 426**

	December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets at FVPL:				
Government securities	P 14,822	P -	P -	P 14,822
Corporate debt securities	514	-	-	514
Equity securities	979	-	586	1,565
Derivative assets	31	1,147	-	1,178
	16,346	1,147	586	18,079
Financial assets at FVOCI – Equity securities	3,743	192	1744	5,679
Total Resources at fair value	P 20,089	P 1,339	P 2,330	P 23,758
Derivative liabilities	P -	P 385	P -	P 385

There were no transfers between the levels of the fair value hierarchy during the nine months ended September 30, 2017.

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government securities and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period. On the other hand, government securities with fair value categorized within Level 2 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., PDEx).

The fair value of the Group's government securities categorized under Level 2 of the hierarchy is estimated and determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., government bonds or notes). In applying this pricing methodology, the yield of the underlying securities is interpolated between the observable yields to consider any gaps in the maturities of the benchmark securities used to develop a benchmark curve.

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI) as of September 30, 2017 and December 31, 2016 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and categorized within Level 3, their fair value is determined through the net asset value or a market-based approach valuation technique (price-to-book value method) using current market values of comparable listed entities. The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities as of September 30, 2017 ranges from 0.746:1 to 2.797:1 for financial assets at FVPL.

Increase (decrease) in the price-to-book ratio and net asset value would result in higher (lower) fair values, all else equal.

A reconciliation of the carrying amounts of level 3 equity securities at the beginning and end of December 31, 2016 is shown below.

	Group		
	Financial Assets at FVOCI	Financial Assets at FVPL	Total
Balance at beginning of year	P 2,165	P 367	P 2,532
Additions	1,845	-	1,845
Fair value gains (losses) – net	(251)	219	(32)
Transfer to level 1	(2,015)	-	(2,015)
Balance at end of year	P 1,744	P 586	P 2,330

The transfer to level 1 in 2016 pertains to a certain equity investment in an entity which shares of stock were publicly listed in the PSE in November 2016.

(c) *Derivative Assets and Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

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

The table below summarizes the fair value hierarchy of the Group's and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	September 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and other cash items	P 11,729	P -	P -	P 11,729
Due from BSP	58,143	-	-	58,143
Due from other banks	17,937	-	-	17,937
Loans under reverse repurchase agreement	4,969	-	-	4,969
Investment securities at amortized cost	56,972	-	-	56,972
Loans and receivables - net	-	-	339,099	339,099
Other resources	-	-	898	898
	P 149,750	**P -**	**P 339,997**	**P 489,747**
Financial Liabilities:				
Deposit liabilities	P 374,574	P -	P -	P 374,574
Bills payable	-	28,979	-	28,979
Bonds payable	-	30,381	-	30,381
Subordinated debt	-	10,434	-	10,434
Accrued interest, taxes and other expenses	-	-	3,573	3,573
Other liabilities	-	-	10,803	10,803
	P 374,574	**P 69,794**	**P 14,376**	**P 458,744**

	December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Cash and other cash items	P 15,176	P -	P -	P 15,176
Due from BSP	66,520	-	-	66,520
Due from other banks	25,293	-	-	25,293
Loans under reverse repurchase agreement	7,889	-	-	7,889
Investment securities at amortized cost	49,698	-	-	49,698
Loans and receivables - net	-	-	306,167	306,167
Other resources	-	-	781	781
	P 164,576	P -	P 306,948	P 471,524
Financial Liabilities:				
Deposit liabilities	P 353,077	P -	P -	P 353,077
Bills payable	-	37,643	-	37,643
Bonds payable	-	43,929	-	43,929
Subordinated debt	-	10,746	-	10,746
Accrued interest, taxes and other expenses	-	-	4,530	4,530
Other liabilities	-	-	8,883	8,883
	P 353,077	P 92,318	P 13,413	P 458,808

7. SEGMENT REPORTING

7.1 Business Segments

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products.

(b) *Corporate* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of the Parent Company's various support groups and consolidated subsidiaries, except for RCBC Savings Bank and Rizal Microbank which are presented as part of Retail.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments as of September 30, 2017 and December 31, 2016.

Primary segment information (by business segment) on a consolidated basis as of and for the nine months ended September 30, 2017 and December 31, 2016:

	Retail	Corporate	Treasury	Others	Total
September 30, 2017 (Unaudited)					
Results of operations					
Net interest income	P 7,662	P 6,195	P 1,051	(P 1,764)	P 13,144
Non-interest income	2,195	1,379	1,450	407	5,431
Total revenues	9,857	7,574	2,501	(1,357)	18,575
Non-interest expense	(5,408)	(1,522)	(427)	(7,207)	(14,564)
Profit (loss) before tax	4,449	6,052	2,074	(8,564)	4,011
Tax expense	-	-	-	(605)	(605)
Net profit (loss)	**P 4,449**	**P 6,052**	**P 2,074**	**(P 9,169)**	**P 3,406**
Total resources and liabilities					
Total resources	**P 16,424**	**P 251,931**	**P 88,121**	**P 167,909**	**P 524,385**
Total liabilities	**P 292,121**	**P 179,636**	**P 21,746**	**(P 34,168)**	**P 459,335**
Other segment information					
Depreciation and amortization	**P 249**	**P 72**	**P 10**	**P 1,091**	**P 1,422**
September 30, 2016 (Unaudited)					
Results of operations					
Net interest income	P 6,634	P 5,662	P 771	(P 1,210)	P 11,857
Non-interest income	1,929	1,020	1,854	899	5,702
Total revenues	8,563	6,682	2,625	(311)	17,559
Non-interest expense	(4,875)	(1,370)	(448)	(7,654)	(14,347)
Profit (loss) before tax	3,688	5,312	2,177	(7,965)	3,212
Tax expense	-	-	-	290	290
Net profit (loss)	P 3,688	P 5,312	P 2,177	(P 7,675)	P 3,502
December 31, 2016 (Audited)					
Total resources and liabilities					
Total resources	P 122,617	P 227,502	P 98,302	P 72,775	P 521,193
Total liabilities	P 363,468	P 155,872	P 28,297	(P 88,577)	P 459,060
September 30, 2016 (Unaudited)					
Other segment information					
Depreciation and amortization	P 797	P 83	P 9	P 389	P 1,278

Secondary information (by geographical location) for the nine months ended September 30, 2017 and year ended December 31, 2016:

	Philippines	**United States**	**Asia and Europe**	**Total**
September 30, 2017 (Unaudited)				
Statement of profit or loss				
Total income	P 23,819	P -	P 11	P 23,830
Total expenses	20,400	-	24	20,424
Net profit (loss)	**P 3,419**	**P -**	**(P 13)**	**P 3,406**
Statement of financial position				
Total resources	**P 524,232**	**P -**	**P 153**	**P 524,385**
Total liabilities	**P 459,262**	**P -**	**P 73**	**P 459,335**
Other segment information – Depreciation and amortization	**P 1,422**	**P -**	**P -**	**P 1,422**

	Philippines	United States	Asia and Europe	Total
September 30, 2017 (Unaudited)				
Statement of profit or loss				
Total income	P 22,933	P -	P 17	P 22,950
Total expenses	19,430	1	17	19,448
Net profit (loss)	P 3,503	(P 1)	P -	P 3,502
December 31, 2016 (Audited)				
Statement of financial position				
Total resources	P 521,018	P 1	P 174	P 521,193
Total liabilities	P 458,967	P -	P 93	P 459,060
September 30, 2017 (Unaudited)				
Other segment information – Depreciation and amortization	P 1,766	P -	P -	P 1,766

8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Cash and other cash items	**P 11,729**	P 15,176
Due from BSP	**58,143**	66,520
Due from other banks	**17,937**	25,293
Loans under reverse repurchase agreement	**4,969**	7,889
	P 92,778	P 114,878

Interest rates per annum on these deposits range from 1.00% to 1.20% in 2017, and 0.35% to 1.00% in 2016.

9. TRADING AND INVESTMENT SECURITIES

This account is composed of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Financial assets at FVPL	**P 5,599**	P 18,079
Financial assets at FVOCI	**5,520**	5,679
Investment securities at amortized cost	**56,972**	51,864
	P 68,091	P 75,622

9.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Government securities	**P 2,023**	P 14,822
Corporate debt securities	**1,581**	514
Derivative financial assets	**1,247**	1,178
Equity securities	**748**	1,565
	P 5,599	P 18,079

9.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI is composed of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Quoted equity securities	**P 3,769**	P 3,920
Unquoted equity securities	**1,751**	1,759
	P 5,520	P 5,679

9.3 Investment Securities at Amortized Cost

Investment securities at amortized cost is composed of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Government securities	**P 34,117**	P 25,990
Corporate debt securities	**22,855**	25,874
	P 56,972	P 51,864

As permitted by PFRS 9, *Financial Instruments*, and BSP Circular 708, the Group sold in 2017 certain loans and receivables, peso and dollar-denominated bonds classified as investment securities at amortized cost with an aggregate carrying amount of P22,729. The disposals resulted in a gain of P683, which is included under Trading and securities gains-net in the statement of profit or loss. In addition, the Group concluded that the sales did not result changes in its business models for managing financial assets to collect contractual cash flows.

10. LOANS AND RECEIVABLES

This account consists of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Receivable from customers:		
Loans and discounts	**P 306,380**	P 281,025
Credit card receivables	**14,875**	12,760
Customers' liabilities on acceptances, import bills and trust receipts	**11,530**	7,675
Bills purchased	**2,479**	2,128
Lease contract receivable	**2,778**	2,085
Receivables financed	**286**	229
	338,328	305,902
Unearned discount	**(535)**	(243)
Balance forwarded	**P 337,793**	P 305,659

		September 30, 2017 (Unaudited)		December 30, 2016 (Audited)
Balance brought forward	**P**	**337,793**	P	305,659
Other receivables:				
Accrued interest receivable		**2,979**		2,784
Sales contract receivable		**1,710**		1,770
Accounts receivable		**2,123**		1,594
Unquoted debt securities classified as loans		**2,228**		1,256
Interbank loans receivables		**38**		515
		9,078		7,919
		346,871		313,578
Allowance for impairment		**(7,772)**		(7,411)
	P	**339,099**	P	306,167

10.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

		September 30, 2017 (Unaudited)		December 30, 2016 (Audited)
Real estate, renting and other related activities	**P**	**78,160**	P	70,532
Electricity, gas and water		**63,609**		52,062
Consumer		**51,491**		44,174
Wholesale and retail trade		**35,679**		26,279
Manufacturing (various industries)		**35,173**		41,689
Transportation and communication		**22,509**		18,270
Financial intermediaries		**20,812**		18,783
Other community, social and personal activities		**14,713**		19,231
Agriculture, fishing and forestry		**4,349**		4,090
Hotels and restaurants		**4,008**		3,260
Mining and quarrying		**1,968**		1,984
Others		**5,322**		5,305
	P	**337,793**	P	305,659

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Secured:		
Real estate mortgage	**P 78,790**	P 78,707
Chattel mortgage	**40,012**	31,831
Hold-out deposit	**14,840**	16,379
Other securities	**18,198**	29,294
	151,840	156,211
Unsecured	**185,953**	149,448
	P 337,793	P 305,659

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of September 30, 2017 and December 31, 2016 is shown below.

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Balance at beginning of period	**P 7,411**	P 7,040
Impairment losses during the period	**1,365**	1,736
Accounts written off	**(1,004)**	(1,365)
Balance at end of period	**P 7,772**	P 7,411

11. INVESTMENTS IN ASSOCIATES

The analysis of the carrying values of investments in associates is shown below.

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Acquisition costs of associates:		
Honda Cars Phils., Inc.	**P 91**	P 91
Luisita Industrial Park Co.	**57**	57
YGC Corporate Services, Inc.	**4**	4
Balance forwarded	**P 152**	P 152

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Balance brought forward	**P 152**	P 152
Accumulated equity in net earnings:		
Balance at beginning of period	**231**	211
Share in net earnings for the period	**65**	131
Share in actuarial gains on defined benefit plan	**4**	-
Cash dividends	**(3)**	(111)
Balance at end of period	**297**	231
Carrying amount	**P 449**	P 383

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of the Group's premises, furniture, fixtures and equipment at the beginning and end of nine months period ended September 30, 2017 and the year ended December 31, 2016 are shown below.

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
September 30, 2017					
Cost	P 1,295	P 3,341	P 9,514	P 1,608	P 15,758
Accumulated depreciation and amortization	-	(1,295)	(5,078)	(475)	(6,848)
Net carrying amount	**P 1,295**	**P 2,046**	**P 4,436**	**P 1,133**	**P 8,910**
December 31, 2016					
Cost	P 1,289	P 3,315	P 9,858	P 1,125	P 15,587
Accumulated depreciation and amortization	-	(1,226)	(5,460)	(25)	(6,711)
Net carrying amount	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876

A reconciliation of the carrying amounts of the Group's bank premises, furniture, fixtures and equipment at the beginning and end of the nine months period September 30, 2017 and the year ended December 31, 2016 is shown below.

	September 30, 2017 (Unaudited)				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876
Additions	12	48	624	271	955
Disposals	(6)	(1)	(59)	(20)	(86)
Depreciation and amortization charges for the period	-	(90)	(527)	(218)	(835)
Balance at September 30, 2017, net of accumulated depreciation and amortization	**P 1,295**	**P 2,046**	**P 4,436**	**P 1,133**	**P 8,910**

	2016 (Audited)				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602
Additions	-	84	2,302	396	2,782
Reclassification from Investment Properties (see Note 13)	10	36	-	-	46
Disposals	(18)	(44)	(192)	(39)	(293)
Depreciation and amortization charges for the year	-	(95)	(894)	(272)	(1,261)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 1,289**	**P 2,089**	**P 4,398**	**P 1,100**	**P 8,876**

The Bank has no outstanding commitment to acquire any additional bank premises, furniture, fixtures and equipment as of September 30, 2017 and December 30, 2016.

13. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of the nine months period ended September 30, 2017 and the year ended December 31, 2016 are shown below.

	Land	Buildings	Total
September 30, 2017 (Unaudited)			
Cost	P 2,495	P 1,540	P 4,035
Accumulated depreciation	-	(405)	(405)
Accumulated impairment	(105)	-	(105)
Net carrying amount	**P 2,390**	**P 1,135**	**P 3,525**
December 31, 2016 (Audited)			
Cost	P 1,389	P 2,492	P 3,881
Accumulated depreciation	-	(618)	(618)
Accumulated impairment	(34)	-	(34)
Net carrying amount	P 1,355	P 1,874	P 3,229

The reconciliations of the carrying amounts of investment properties at the beginning and end of the nine months period ended September 30, 2017 and the year ended December 31, 2016 follow:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Balance at January 1, net of accumulated depreciation and impairment	**P 3,229**	P 3,370
Additions	**920**	559
Reclassifications to Bank Premises	**-**	(46)
Disposals/transfers	**(256)**	(384)
Impairment losses	**(71)**	(34)
Depreciation charges for the period	**(297)**	(236)
Balance at September 30 and December 31, net of accumulated depreciation and impairment	**P 3,525**	P 3,229

14. OTHER RESOURCES

This account consists of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Assets held-for-sale and disposal group	**P 2,315**	P 3,888
Creditable withholding taxes	**1,928**	1,569
Branch licenses	**1,001**	1,005
Software – net	**967**	960
Prepaid expenses	**759**	457
Refundable and other deposits	**481**	456
Goodwill	**426**	426
Returned checks and other cash items	**307**	220
Unused stationery and supplies	**262**	202
Sundry debits	**98**	6
Foreign currency notes	**96**	52
Inter-office float items	**40**	112
Margin deposits	**14**	20
Miscellaneous	**935**	776
	9,629	10,149
Allowance for impairment	**(192)**	(288)
	P 9,437	P 9,861

The Group recognized impairment loss on assets held-for-sale and disposal group amounting to P74 and P85 for the nine-month period ending September 30, 2017 and 2016, respectively.

15. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Demand	**P 51,757**	P 42,053
Savings	**167,480**	162,926
Time	**155,337**	148,098
	P 374,574	P 353,077

Included in the time deposits are the Parent Company's Long-term Negotiable Certificate of Deposits (LTNCDs) as of September 30, 2017 and December 31, 2016 as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2017		Outstanding Balance 2016	
August 11, 2017	February 11, 2023	4.13%	**P**	**2,100**	P	-
December 19, 2014	June 19, 2020	4.13%		**2,100**		2,100
November 14, 2013	May 14, 2019	3.25%		**2,860**		2,860
November 14, 2013	May 14, 2019	0.00%		**2,022**		1,970
May 7, 2012	November 7, 2017	5.25%		**1,150**		1,150
December 29, 2011	June 29, 2017	5.25%		**-**		2,033
December 29, 2011	June 29, 2017	0.00%		**-**		1,768
			P	**10,232**	P	11,881

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

16. BILLS PAYABLE

This account consists of borrowings from:

	September 30, 2017 (Unaudited)		December 30, 2016 (Audited)	
Foreign banks	**P**	**20,969**	P	26,985
Local banks		**8,008**		10,548
Others		**2**		110
	P	**28,979**	P	37,643

17. BONDS PAYABLE

The composition of this account follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value		Outstanding Balance 2017 (Unaudited)		Outstanding Balance 2016 (Audited)	
November 2, 2015	February 2, 2021	3.45%	$	320	**P**	**16,261**	P	15,869
January 21, 2015	January 22, 2020	4.25%		243		**12,291**		12,053
January 30, 2012	January 31, 2017	5.25%		275		**-**		13,673
			$	838	**P**	**28,552**	P	41,595

18. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7.0 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3.0 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7.0 billion Tier 2 Notes.

There were no changes in the significant terms and conditions of the Notes during the nine months period ended September 30, 2017.

19. OTHER LIABILITIES

Other liabilities consist of the following:

	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Accounts payable	**P 6,024**	P 5,210
Manager's checks	**1,362**	1,108
Post-employment defined benefit obligation	**1,339**	1,735
Bills purchased – contra	**1,082**	721
Outstanding acceptances payable	**610**	822
Deposits on lease contracts	**543**	167
Derivative financial liabilities	**426**	385
Other credits	**364**	342
Withholding taxes payable	**216**	205
Payment orders payable	**174**	167
Guaranty deposits	**100**	58
Sundry credits	**89**	82
Due to BSP	**29**	33
Miscellaneous	**936**	935
	P 13,294	P 11,970

20. EQUITY

The movements in the outstanding capital stock are as follows:

	Number of Shares*	
	September 30, 2017 (Unaudited)	December 30, 2016 (Audited)
Preferred stock – voting, non-cumulative non-redeemable, participating convertible into common stock – P10 par value		
Authorized – 200,000,000 shares		
Balance at beginning of period	**293,987**	310,145
Conversion of shares during the period	**(14,994)**	(16,158)
Balance at end of period	**278,993**	293,987
Common stock – P10 par value		
Authorized – 1,400,000,000 shares		
Balance at beginning of period	**1,399,912,464**	1,399,908,746
Conversion of shares during the period	**3,412**	3,718
Balance at end of period	**1,399,915,876**	1,399,912,464

**Amounts in absolute number of shares*

20.1 Surplus and Dividend Declarations

As of September 30, 2017 and December 31, 2016, there are 766 and 779 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P49.6 per share and P33.55 per share as of September 30, 2017 and December 31, 2016, respectively.

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
January 25, 2016	0.6495	0.02	March 21, 2016	January 25, 2016	*	March 23, 2016
April 25, 2016	0.0660	0.02	June 21, 2016	April 25, 2016	June 16, 2016	June 21, 2016
April 25, 2016	0.7200	1,007.94	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
April 25, 2016	0.7200	0.21	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
July 25, 2016	0.0676	0.02	September 21, 2016	July 25, 2016	September 16, 2016	October 11, 2016
November 2, 2016	0.0724	0.02	December 21, 2016	November 2, 2016	January 13, 2017	January 17, 2017
January 30, 2017	0.0749	21	March 21, 2017	January 30, 2017	March 22, 2017	March 24, 2017
April 24, 2017	0.0807	23	June 21, 2017	April 24, 2017	April 26, 2017	June 23, 2017
April 24, 2017	0.5520	772,754	May 11, 2017	April 24, 2017	April 26, 2017	May 25, 2017
April 24, 2017	0.5520	154	May 11, 2017	April 24, 2017	April 26, 2017	May 25, 2017
July 31, 2017	0.0840	23	September 21, 2017	July 31, 2017	September 5, 2017	September 22, 2017

** Not applicable, BSP approval not anymore required*

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P9,737 and P7,999 as of September 30, 2017 and December 31, 2016, respectively, is not currently available for distribution as dividends.

20.2 Other Reserves

On December 23, 2013, the special purpose companies' (SPCs) BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus.

As of September 30, 2017 and December 31, 2016, this account consists of reserves arising from the acquisition of RCBC LFC and Rizal Microbank for a total of P86.

21. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

21.1 Miscellaneous Income

	For the Nine Months Ended			
	September 30, 2017 (Unaudited)		September 30, 2016 (Unaudited)	
Rentals	**P**	**538**	P	437
Dividend income		**219**		318
Recoveries from written-off assets		**142**		121
Gains on assets sold		**77**		74
Others		**327**		433
	P	**1,303**	P	1,383

21.2 Miscellaneous Expenses

	For the Nine Months Ended			
	September 30, 2017 (Unaudited)		September 30, 2016 (Unaudited)	
Insurance	**P**	**742**	P	674
Credit card related expenses		**656**		455
Communication and information		**312**		332
Management and other professional fees		**276**		300
Advertising and publicity		**229**		188
Employee activities		**205**		220
Banking fees		**147**		146
Transportation and travel		**139**		145
Service processing fees		**112**		103
Stationery and office supplies		**100**		94
Litigation/asset acquired expenses		**85**		276
Others		**456**		1,329
	P	**3,459**	P	4,262

Other miscellaneous expenses in 2016 includes the supervisory action amounting to P1,000 imposed by the BSP in relation to the alleged unauthorized transfer of funds (see Note 23.7).

22. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company (PMMIC), entities under common ownership and key management personnel.

22.1 Loans and Receivables

In the ordinary course of business, the Group has loan transactions with the entities under common ownership, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). As of September 30, 2017 and December 30, 2016, total loans and receivables to related parties amounted to P16,116 and P4,542, respectively. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under 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 Group and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group. However, non-risk loans are excluded in both individual and aggregate ceiling computation. The total outstanding DOSRI loans as of September 30, 2017 and December 31, 2016 amounted to P552 and P587, respectively. As of these periods, the Group is in compliance with these regulatory requirements.

The Group did not recognize any impairment loss on these loans for the periods ending September 30, 2017 and December 31, 2016.

22.2 Deposits

The outstanding balances for deposit liabilities with its related parties as of and for the periods ended September 30, 2017 and December 31, 2016 amounted to P5,858 and P1,754, respectively.

22.3 Lease Contract with RCBC Realty Corporation

The Group occupy several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). Rental expense incurred by the Group related to this lease arrangement amounted to P207 and P192 as of September 30, 2017 and December 31, 2016, respectively, is included as part of Occupancy and Equipment-related account in the condensed consolidated statements of income. The Group's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities in the 2017 and 2016 statements of financial position.

23. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

23.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of September 30, 2017 and December 31, 2016:

	September 30, 2017 (Unaudited)		December 30, 2016 (Audited)	
Trust department accounts	**P**	**90,489**	P	84,804
Derivative liabilities		**44,392**		27,256
Derivative assets		**40,396**		32,172
Outstanding guarantees issued		**38,731**		31,828
Unused commercial letters of credit		**16,598**		10,783
Spot exchange sold		**10,604**		5,455
Spot exchange bought		**10,502**		5,452
Inward bills for collection		**992**		2,169
Late deposits/payments received		**573**		540
Outward bills for collection		**115**		84
Others		**17**		17

23.2 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI) (collectively, "Global Steel"), which purchased the Iligan Plant assets of the NSC ("NSC Plant Assets") from the Liquidator in 2004, initiated arbitration proceedings with the Singapore International Arbitration Centre ("SIAC") seeking damages on account of the failure of the Liquidator and the Secured Creditors, including the Bank and RCBC Capital Corporation ("RCAP"), to deliver the NSC Plant Assets free and clear from liens and encumbrance; purportedly depriving them of the opportunity to use the said assets to secure additional loans to fund the operations of the Plant and upgrade the same. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award in favor of Global Steel in the total amount of (a) US$80, as and by way of lost opportunity to make profits and (b) P1,403, representing the value of the undelivered Billet Shop Land measuring 3.4071 hectares (the "Lost Land Claim").

On appeal, and on July 31, 2014, the Singapore High Court set aside the Partial Award, and subsequently granted the Secured Creditors' application for the lifting of the injunctions issued in 2008 and directed the release of Global Steel's installment payment to the Secured Creditors. Accordingly, the Bank and RCAP received their respective share in the funds previously held in escrow. Moreover, the Secured Creditors may now compel Global Steel to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon Global Steel's failure to do so.

On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court insofar as it set aside (a) the monetary award of US$80 and P1,403 representing lost opportunity to make profit and the value of the Lost Land Claim in favor of Global Steel, respectively, and (b) the deferment of Global Steel's obligation to pay the purchase price of the NSC Plant Assets. The Singapore Court of Appeals ruled that (a) aside from the lack of jurisdiction to rule on the issue of lost opportunity to make profit and absence of evidentiary support for the award, and (b) the premature ruling on the issue of the Lost Land Claim, the dispute relating to Global Steel's payment obligation is an obligation under the OMNA, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Bank, RCAP and the other Secured Creditors to defer holding Global Steel in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

On November 27, 2015, the Singapore Court of Appeals further held that the issue of Global Steel's lost opportunity to make profit cannot be remanded to the Arbitral Tribunal, or to a new Arbitral Tribunal for that matter, to be litigated anew after the setting aside of the Partial Award. The doctrines of res judicata and abuse of process also operated to preclude the reopening of this issue. However, the Singapore Court of Appeals held that the Lost Land Claim may be the subject of a fresh arbitration proceedings before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the Secured Creditors.

The Bank's exposure is approximately P209 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of P485.5, taking into consideration the P49.3 installment payment it had received from the funds previously in escrow. The Bank has fully provisioned the receivable, which is classified in the books of the Bank as UDSCL with zero net book value. The Bank's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the NSC assets sold to Global Steel, covering the period 1999 to 14 October 2004, are deemed paid, following the denial with finality of the City of Iligan's Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on March 16, 2016.

In defiance, however, of the aforesaid final and executory ruling, the City of Iligan auctioned the NSC Plant Assets and other NSC assets, to collect the taxes covering the period 1999 to 2016, on October 19, 2016, even after the LGU received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57 ("Makati Trial Court"), directing it to (a) comply with the valid and binding Tax Amnesty Agreement dated October 13, 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion praying that the City of Iligan, the Sangguniang Panlunsod and City Treasurer be directed to show cause why they should not be held in contempt, and for the nullification of the Auction Sale of the NSC properties held on October 19, 2016.

In an Order dated April 4, 2017, the Makati Trial Court (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the NSC until the Decision dated October 7, 2011, which held that the NSC pre-closing taxes have been paid, is fully executed and NSC's remaining tax liabilities are correctly computed. The Makati Trial Court likewise (a) directed the Iligan City Treasurer to show cause why she should not be held in contempt of court for holding the auction sale of the NSC Plant Assets without clearing NSC of the pre-closing taxes, and (b) directed the Iligan City Treasurer, among others, to inform the Makati Trial Court of the names of the responsible persons who ordered, aided and abetted her assailed conduct. The LGU and the Iligan City Treasurer, among others, moved the reconsideration of the April 4, 2017 Order.

23.3 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. ("VMS"), a Netherlands corporation, and Verotel International Industries, Inc. ("VII"), a Philippine corporation civilly sued the Bank, Bankard, Inc. ("Bankard"), Grupo Mercarse Corp., CNP Worldwide, Inc. ("CNP") and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5, which the defendants allegedly misappropriated. VMS is an Internet merchant providing on-line adult entertainment and on-line gambling, in addition to the sale of pharmaceuticals over the Internet.

After nearly five (5) years, and after being transferred to a fourth judge, the case went to trial from January 13, 2016 to January 26, 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for Judge Michael J. Raphael's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. On March 10, 2016, the Bank/Bankard informed Judge Raphael that they will, instead, be filing a motion for judgment notwithstanding verdict (JNOV) and motion for new trial. On April 11, 2016, the Bank/Bankard timely filed their motions for JNOV and new trial, and on April 27, 2016, the Bank/Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, Judge Raphael heard, and partially granted, the Bank/Bankard's Motion for JNOV by deleting the US$7.5 punitive damages awarded to VMS in the absence of proof that (a) a corporate officer of the Bank/Bankard knew of, authorized, or ratified fraudulent acts, and (b) Janet Conway was a managing agent of the Bank/Bankard within the meaning of the California Civil Code Section 3294(b). However, Judge Raphael ruled that Conway was an agent of the Bank/Bankard for some purposes, and sustained the award of US$1.5. Judge Raphael likewise denied the Bank/Bankard's Motion for New Trial, and likewise partially granted, plaintiffs' motion for interest and awarded VMS prejudgment interest in the amount of US$0.5.

On July 11, 2016, the Bank/Bankard timely filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals, and received a copy of the Notice of Appeal solely filed by VMS on July 8, 2016. On July 21, 2016, the Bank/Bankard timely posted the amount of US$3.1, as and by way of security to stay the enforcement of the Amended Judgment rendered by Judge Rafael. On September 8, 2016, VMS filed its unsealed Certificate of Interested Persons, after the California Court of Appeals sustained the Bank/Bankard's position that the identities subject of the disclosure was, in fact, a central issue in this case and the appeal, as it relates to whether VMS has standing in this case and is entitled to any damages. In an Order dated, and filed, on November 16, 2016, the California Court of Appeals adopted the briefing sequence proposed by the Bank/Bankard, thus, allowing the full ventilation of the case on appeal. In a notice dated January 25, 2017, the California Court of Appeals informed the parties of the filing of the reporter's transcripts.

In the meantime, on March 7, 2017, Judge Raphael granted VMS's motion for cost of proof sanction and directed the Bank/Bankard to pay VMS the additional amount of US$0.08, to cover the cost of (a) the services of expert witnesses and (b) their presentation during the trial, given his ruling that the Bank/Bankard unjustifiably denied VMS's request for admission that they failed to comply with MasterCard and VISA association rules. The Bank/Bankard timely filed their Notice of Appeal on the aforementioned Order of Judge Raphael but no longer posted any additional filing fees, following VMS's agreement not seek to enforce of the said award during the pendency of the appeal. Following the approved briefing sequence, and upon filing the corresponding motions for extension of time, the Bank/Bankard are due to file their Opening Brief on their Appeal with the California Court of Appeals on August 2, 2017. The deadline for the filing of the Bank/Bankard's Opening Brief has since been extended, for the last time, to October 2, 2017.

23.4 RCBC Securities Case

In December 2011, RCBC Securities, Inc. ("RSEC") initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), who carried out certain questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violations of Batas Pambasa Blg. 22 ("BP 22"), against the aforesaid former agent. On November 17, 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of BP 22 and directed her to (a) pay a fine of P0.2, with subsidiary imprisonment in case of insolvency, (b) pay RSEC the amount of Php7.2, with interest at the rate of six percent (6%) per annum, counted from the filing of the complaint on February 9, 2012, until the said amount is fully paid, and (c) pay the costs of suit. Valbuena filed her Notice of Appeal before the Regional Trial Court of Makati City, Branch 141 where the same is still pending. Upon the filing of RSEC and Valbuena's respective Appeal Memorandum, the presiding judge directed the parties to explore settlement of the civil aspect of the case. Valbuena proposed to pay RSEC P30, payable in five (5) years, in settlement of all the claims against her, which RSEC refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties.

In May 2012, the Capital Markets Integrity Corporation ("CMIC") conducted an investigation on the complaint filed by Francisco Ken Cortes against RSEC. In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio Holdings, Inc. ("Cognatio") likewise filed a complaint against RSEC with the CMIC, even as Cognatio's earlier complaint dated December 20, 2013 against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission ("EIPD-SEC") ("SEC Cognatio Case"). In its Letter-Decision dated December 4, 2014, the CMIC dismissed the complaint on the ground of prescription and res judicata. Consequently, Palanca/Cognatio respectively appealed the case to the SEC En Banc, which granted the appeals of Palanca/Cognation and reversed the CMIC's decision. In turn, RSEC appealed the SEC En Banc's reversal of the CMIC decision to the Court of Appeals. The case is now submitted for resolution by the Court of Appeals.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the "Makati Trial Court"), praying, among others, for the return of his shares of stock and cash payments which he claims to have turned over to Valbuena. On May 20, 2013, RSEC sought the dismissal of the complaint on the ground of non-payment of the correct filing fees and failure to state a case of action, which was, however, denied by the Makati Trial Court. Aggrieved, RSEC filed a Petition for Certiorari with the Court of Appeals on November 22, 2013, which was given due course. In the Decision dated October 9, 2014, the Court of Appeals sustained RSEC's position and ordered the dismissal of the complaint pending before the Makati Trial Court on the ground of lack of jurisdiction. In a Petition for Review dated September 15, 2015, Ku sought the reversal of the ruling of the Court of Appeals, and as an alternative, prayed to be allowed to re-file his Complaint sans docket fees. The case remains pending with the Supreme Court.

As for the SEC Cognatio Case, on April 21, 2017, the EIPD-SEC issued an Order of even date directing RSEC, its former Compliance Officer, Rhodora A. Alberto ("Alberto"), and Valbuena to show cause why they should not be held liable for violating the Securities Regulations Code ("SRC") and its Implementing Rules and Regulations ("SRC-IRR"). RSEC filed its Reply to the said Order, to which Cognatio filed a Motion for Leave to File Comment, attaching its Comment thereto. Cognatio likewise filed a Motion for Partial Reconsideration praying that the EIPD-SEC direct RSEC's former Chief Financial Officer, Diosdado C. Salang, Jr. ("Salang"), to show cause why he should not be held liable for violation of the SRC and SRC-IRR, which was granted by EIPD-SEC. Thus, Salang filed his Reply to the Order issued by EIPD-SEC, to which Cognaito filed a Motion for Leave to File Comment, attaching its Comment thereto. The case remains pending with the EIPD-SEC.

23.5 Poverty Eradication and Alleviation Certificates (PEACe) Bonds

In October 2011, the Bank filed a case before the Court of Tax Appeals questioning the 20% final withholding tax on PEACe Bonds by the BIR. The Bank subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury withheld P199 in October 2011 from the Bank on the interest on its PEACe bonds holdings. The amount was recognized as part of Loans and Receivables account in the statements of financial position.

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20% final withholding tax it withheld on the PEACe Bonds on October 18, 2011. On March 16, 2015, the Bank and RCAP filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification to exclude from the definition "deposit substitutes" the PEACe Bonds since there was only one lender at the primary market, and subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax. The Bank and RCAP also sought partial reconsideration to the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCAP/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed. The Bank and RCAP also reiterated its arguments that the tax constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the obligations by the Bureau of Treasury when it issued the PEACe Bonds. The Office of the Solicitor General ("OSG"), as counsel for the Republic and other public respondents, also filed a Motion for Reconsideration and Clarification, reiterating the BIR's right to withhold 20% as Final Withholding Tax and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Bank and RCAP's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCAP which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. On the other hand, the Supreme Court denied the Motion for Reconsideration and Clarification filed by the OSG. The Supreme Court likewise held that due to the continued refusal of the Bureau of Treasury to release the amount of P4,966 which it withheld upon maturity of the PEACe Bonds, in violation of the order issued by the Supreme Court, the Bureau of Treasury is liable to pay legal interest of six percent (6%) per annum on the aforesaid amount of Php4,966, counted from October 19, 2011, until full paid.

The OSG sought leave of court to seek the partial reconsideration of the foregoing ruling of the Supreme Court. In the Notice of Resolution dated November 22, 2016, the Supreme Court denied for lack of merit the Motion for Leave to File Motion for Partial Reconsideration and to Admit Motion for Partial Reconsideration filed by the OSG on the ground that a second motion for reconsideration is a prohibited pleading. The Notice of Resolution further stated that no further pleadings or motions will be entertained. On April 11, 2017, the Bank received a copy of the Entry of Judgment stating, among others, that the Decision date January 13, 2015 and the Resolution dated August 16, 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Bank and RCAP, became final and executory on October 20, 2016.

23.6 Applicability of RR 4-2011

On March 15, 2011, the Bureau of Internal Revenue ("BIR") issued Revenue Regulations No. 4-2011 ("RR 4-2011") which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU and within FCDU.

On April 6, 2015, the Bank and other member-banks of the Bankers Association of the Philippines ("BAP") ("Petitioners"), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order ("TRO") and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein the Petitioners assailed the validity of RR 4-2011 on the ground, among others, that (a) RR 4-2011 violates the Petitioners' substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Bank and other BAP member banks, including the issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned. The Pre-trial Conference of the case began on August 2, 2016 and continued to August 3, 2017. During the August 3, 2017 hearing, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017.

23.7 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board approved the imposition of supervisory action on the Parent Company to pay the amount of P1,000 in relation to the completed special examination. There may be other cases arising from these events. The Parent Company has fully recognized in the 2016 condensed consolidated interim statement of income the P1,000 supervisory action as part of Miscellaneous Expenses (see Note 21.2), and has paid in full this penalty ahead of the August 2017 deadline set by the BSP. The Parent Company's payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations.

There are no known trends, demands, and commitments, events, or uncertainties that will have a material impact on the Bank's operational performance and ability to service obligations.

Except for the above-mentioned proceedings, the Parent Company is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

24. EARNINGS PER SHARE

The following reflects the profit and per share data used in the basic and diluted EPS computations:

	For the Nine Months Ended	
	September 30, 2017 (Unaudited)	September 30, 2016 (Unaudited)
a. Adjusted net profit	**P 3,406**	P 3,502
b. Weighted average number of Outstanding common stocks	**1,400**	1,400
Basic and diluted EPS (a/b)	**P 2.43**	P 2.50

RCBC

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Rizal Commercial Banking and Subsidiaries (the Group), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2016 and 2015, 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 Group'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 or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Group'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 & Araullo, the independent auditors appointed by the stockholders, have audited the financial statements of the Group 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.

HELEN Y. DEE Chairperson, Board of Directors	GIL A. BUENAVENTURA President & Chief Executive Officer
CHESTER Y. LUY SEVP, Head – Treasury Group	FLORENTINO M. MADONZA SVP, Head – Controllership Group

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Report of Independent Auditors

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation
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Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2016, 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 Group and of the Parent Company as at December 31, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:

(a) Impairment of Loans and Receivables

Description of the Matter

As of December 31, 2016, the Group's loans and receivables amounted to P306,167 million, net of allowance for impairment of P7,411 million, while the Parent Company's loans and receivables amounted to P228,432 million, net of allowance for impairment of P4,792 million, which details are disclosed in Note 11 to the financial statements. Loans and receivables were the most significant resources of the Group and the Parent Company which represented 59% and 55% of the total resources, respectively. Both the Group's and the Parent Company's management exercise significant judgment and use subjective estimates in determining when and how much to recognize impairment loss on loans and receivables. These judgment and estimates are set out in the Group's and the Parent Company's accounting policies in Note 2 to the financial statements, which describes the following impairment assessments:

- Loans and receivables are assessed for impairment on an individual basis if there is objective evidence of impairment that exists (or a loss event) as of the end of the reporting period. Management considers the following in determining that a loss event occurred, among others – significant financial difficulty of the issuer or obligor; a breach of contract, such as a default or delinquency in interest or principal payments; and, it becoming probable that the borrower will enter bankruptcy or other financial reorganizations. Loss events are classified by management according to the following credit grades – substandard, doubtful and loss, depending on the level of credit risk.

- Collective assessments are made on a portfolio basis where the loans and receivables are grouped on the basis of similar credit risk characteristics (i.e., on the basis of management's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). The methodology utilized by management in collective impairment assessment uses significant assumptions such as default rate and loss given default, which are applied to each portfolio belonging to a particular group and credit grade.

Because of the significance of the amounts involved and subjectivity of management's judgment and estimates used, we identified the inadequacy of the allowance for impairment on loans and receivables as a significant risk of material misstatement.

How the Matter was Addressed in the Audit

We established reliance on the Group's and the Parent Company's internal control by testing the operating effectiveness of key activities-level controls over the assessment and approval of customer credit; the capturing of information relevant to calculate the allowance for impairment (e.g., risk grades, default rates and loss given defaults); and, the calculation and recognition of impairment.

In addition, we performed substantive audit procedures, which included, among others:

- checking and evaluating the methodology used by management whether it was in accordance with the individual and collective impairment assessments prescribed by Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*;

- on selected loan accounts, checking whether the loans identified for individual impairment assessment were appropriately classified according to credit grades and recalculating the net present values of expected cash inflows using the effective interest rates applicable for each loan, which were compared to the outstanding balances of the loans; and,

- evaluating the basis used in determining the main factors in computing the impairment loss for collective assessment such as default rates and loss given defaults by considering payment history for selected loans per economic activity or industry classification and credit grade.

(b) Fair Value Measurement of Unquoted Security Classified at Fair Value Through Profit or Loss

Description of the Matter

The Group and the Parent Company has an outstanding significant investment in an unquoted security classified at fair value through profit or loss (FVPL) amounting to P586 million as of December 31, 2016, on which management recognized fair value gain in profit or loss of P219 million in 2016. The valuation of such financial instrument involves a complex valuation technique (i.e., price-to-book value method), which used significant assumptions and estimates such as price-to-book ratios of comparable listed entities and application of a certain haircut rate, considered as Level 3 unobservable inputs, as discussed in Notes 3 and 7 to the financial statements. As a result, the valuation of such security was considered significant to our audit.

How the Matter was Addressed in the Audit

Our work included evaluating the appropriateness of management's valuation methodology in accordance with PFRS 13, *Fair Value Measurement.* We used our own internal valuation expert to assess and challenge the valuation assumptions used, including the identification of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we considered available non-financial information relating to the potential marketability of the subject security, and consistency of the application of the haircut rate used in prior period.

(c) Recoverability of Deferred Tax Assets

Description of the Matter

The Group's and the Parent Company's deferred tax assets amounted to P2,177 million and P1,285 million, respectively, as of December 31, 2016. The recognition of deferred tax assets is reviewed at the end of each reporting period and adjusted to the extent of the changes in probability that sufficient taxable profits will be available to allow all or part of such deferred tax assets to be utilized. Determining probabilities of sufficiency of future taxable profits is highly judgmental requiring preparation of profitability projections. Accordingly, we identified the recoverability of deferred tax assets as an audit area of focus.

How the Matter was Addressed in the Audit

Our work included, among others, obtaining management's income projections based on its Internal Capital Adequacy Assessment Process document. Relative to this, we checked appropriateness of management's assumptions underlying the recoverability of this asset by comparing the forecasts to our expectations based on historical performance. We also considered the fact that the Group and the Parent Company had utilized deferred tax assets in prior periods.

The relevant information relating to deferred tax assets are disclosed in Notes 2, 3 and 26 to the financial statements.

(d) Matter in Relation to Significant Changes to Policies and Procedures Over Deposit Liabilities

Description of the Matter

During the latter part of 2016, in response to regulatory findings related to the alleged unauthorized transfer of funds as disclosed in Note 29 to the financial statements, the Group's and the Parent Company's management initiated and implemented branch transformation project, which essentially segregates sales and service functions in the branches. Part of the project include the creation of a Branch Operations Control Division, of which one of its main functions is to independently validate a random sample of accounts opened, reactivated dormant accounts, and monitoring of returned "Thank You" letters (TYLs) by investigating the completeness of address by matching it to proof of address or direct contact with the customer. Such initiative significantly changed the policies and procedures over deposit account openings at the branches level, particularly on anti-money laundering (AML) compliance and know-your-customer procedures.

The Group and the Parent Company also strengthened its Compliance Monitoring Section of the AML Department for onsite testing for high risk accounts, enhancement of testing procedures, immediate sanctions of erring branches, and hiring of additional manpower. The Policy Management Section of the AML Department conducts analysis of the covered and suspicious transactions while the Alerts Management Section of the AML Department performs testing of alerts generated and the disposal thereof. The Compliance Monitoring Section reviews transactions of sampled accounts, including testing of returned TYLs. The Group's anti-money laundering controls are fully disclosed in Note 4 to the financial statements.

In addition, a Branch Audit Group (BAG) was formed and separated from the Internal Audit Group (IAG) to focus on compliance audit at the branch level, while the IAG remained to focus on compliance audit of the business units of the head office.

The above changes had significant impact on our audit of the deposit liabilities. Hence, we considered such changes in our audit strategy.

How the Matter was Addressed in the Audit

To support our reliance on the effectiveness of internal controls over deposit liabilities transaction cycle, we selected certain branches which already implemented the changes in policies and procedures over deposit account openings and checked, on a test basis, that new customers were subjected to background investigation based on the new requirements of the changes in practices such as the enhanced identification (ID) verification procedures by confirming the authenticity of the depositor's ID; enhanced due diligence and senior management approval for high-risk accounts; and face-to-face certification of an authorized officer. We also checked the timely resolution of TYLs marked as "Returned to Sender" received in 2016.

With respect to establishing reliance on the work of the BAG and IAG, our work, among others, included:

- considering the nature and scope of work performed by the BAG and IAG during the year; and,

- obtaining internal audit working papers and checked if adequately planned, performed, supervised, reviewed and documented, and if sufficient appropriate evidence was gathered to support conclusions, and such conclusions were appropriate in the circumstances by reperforming the work done by the BAG and IAG, on a test basis, on account openings, deposit and withdrawal activities for selected branches.

Key audit matter we identified in our audit of the consolidated financial statements of the Group:

Assessment of Goodwill Impairment

Description of the Matter

As of December 31, 2016, the balance of goodwill amounted to P268 million, which is included as part of the Other Resources account in the Group's statement of financial position. Under PFRS, goodwill, having indefinite useful life, is not subject to amortization but is required to be tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. This annual impairment test was significant to our audit because management's assessment process is complex and highly judgmental and is based on significant assumptions, specifically on the cash generating units (CGUs) where the goodwill is allocated and the future cash flows of that particular CGUs, which are affected by expected future market or economic conditions. Relative to this, the Group engaged a third party valuation specialist to assist them in assessing any impairment on the recognized goodwill. Management's significant assumptions include:

- RCBC Savings Bank, Inc. (RSB), the identified CGU on which the goodwill is allocated, will continue as a going concern;

- RSB will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support the business needs; and,

- RSB's performance forecasts for the next 5 years.

The Group's accounting policy on impairment of and disclosures about goodwill are included in Notes 2 and 15, respectively, to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures included, among others, evaluating the assumptions and methodologies used by management and its valuation specialist, particularly those relating to the forecasted revenue growth and profit margins of RSB by considering historical trends. In addition, our audit on the financial statements of RSB as of and for the year ended December 31, 2016 did not identify event or conditions that may cast significant doubt on RBS's ability to continue as a going concern.

Key audit matter we identified in our audit of the separate financial statements of the Parent Company:

Effects of Adoption of PAS 27 (Amendments), Separate Financial Statements – Equity Method in Separate Financial Statements

Description of the Matter

Effective January 1, 2016, PAS 27 (Amendments) provides a third option, which permits an entity to account for its investment in subsidiaries, associates and joint ventures under the equity method in its separate financial statements, in addition to the current option of accounting those investments at cost or in accordance with PAS 39 or PFRS 9, *Financial Instruments*. In addition, the Bangko Sentral ng Pilipinas (BSP), through its Circular No. 915, mandatorily require banks and non-bank financial institutions to measure their equity investments using the equity method in their separate financial statements. Accordingly, the Parent Company changed its accounting policy in accounting for its investments in subsidiaries and associates from the cost method to the equity method in its separate financial statements in accordance with PAS 27 (Amendments) and BSP Circular No. 915.

The change in its accounting policy required the Parent Company to restate its comparative financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015 to reflect the material retrospective effects of the use of the equity method in measuring its investments in subsidiaries and associates.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement arising from the change in the Parent Company's policy in accounting for its investments in subsidiaries and associates included, among others, the following:

- obtaining latest and prior period financial information of the subsidiaries and associates that were used by management in measuring the Parent Company's equity investments; and,

- recalculating the retrospective and current period adjustments made in determining the restated and current period balances of affected accounts of the Parent Company.

The impact of the adoption of PAS 27 (Amendments) are disclosed in Note 2 to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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 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 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 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 consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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. As discussed in Note 26 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) 15-2010 and RR 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 and RR 19-2011 require the supplementary information to be presented in the notes to financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Securities Regulation Code Rule 68, as amended, of the SEC.

The engagement partner on the audits resulting in this independent auditors' report is Maria Isabel E. Comedia.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 5908622, January 3, 2017, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 27, 2017

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(With Corresponding Figures as of January 1, 2015)
(Amounts in Millions of Philippine Pesos)

		GROUP		PARENT COMPANY		
	Notes	**December 31, 2016**	December 31, 2015	**December 31, 2016**	December 31, 2015 (As Restated - See Note 2)	January 1, 2015 (As Restated - See Note 2)
RESOURCES						
CASH AND OTHER CASH ITEMS	9	**P 15,176**	P 14,070	**P 11,000**	P 10,127	P 9,539
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**66,520**	50,617	**50,871**	42,026	37,763
DUE FROM OTHER BANKS	9	**25,293**	19,701	**24,109**	18,196	15,535
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	9	**7,889**	-	**4,931**	-	-
TRADING AND INVESTMENT SECURITIES - Net	10	**75,622**	111,201	**65,652**	97,790	87,540
LOANS AND RECEIVABLES - Net	11	**306,167**	299,119	**228,432**	231,708	205,614
INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND ASSOCIATES - Net	12	**383**	363	**17,178**	15,884	14,458
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**8,876**	7,602	**5,192**	4,975	4,487
INVESTMENT PROPERTIES - Net	14	**3,229**	3,370	**2,816**	2,883	3,426
DEFERRED TAX ASSETS	26	**2,177**	1,222	**1,285**	443	-
OTHER RESOURCES - Net	15	**9,861**	8,796	**6,316**	5,780	5,084
TOTAL RESOURCES		**P 521,193**	P 516,061	**P 417,782**	P 429,812	P 383,446
LIABILITIES AND EQUITY						
DEPOSIT LIABILITIES	17	**P 353,077**	P 342,362	**P 260,165**	P 264,070	P 248,022
BILLS PAYABLE	18	**37,643**	49,404	**31,712**	45,816	36,837
BONDS PAYABLE	19	**41,595**	39,364	**41,595**	39,364	23,486
SUBORDINATED DEBT	20	**9,952**	9,936	**9,952**	9,936	9,921
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	21	**4,823**	4,453	**3,633**	3,404	3,498
OTHER LIABILITIES	22	**11,970**	12,413	**8,688**	9,187	8,643
Total Liabilities		**459,060**	457,932	**355,745**	371,777	330,407
EQUITY	23	**62,133**	58,129	**62,037**	58,035	53,039
TOTAL LIABILITIES AND EQUITY		**P 521,193**	P 516,061	**P 417,782**	P 429,812	P 383,446

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		GROUP			PARENT COMPANY		
	Notes	**2016**	2015 (As Restated - See Note 2)	2014 (As Restated - See Note 2)	**2016**	2015 (As Restated - See Note 2)	2014 (As Restated - See Note 2)
INTEREST INCOME							
Loans and receivables	11	**P 19,442**	P 17,462	P 15,961	**P 13,219**	P 12,163	P 11,143
Trading and investment securities	10	**3,269**	3,880	4,026	**2,927**	3,455	3,578
Others	9, 24	**426**	178	213	**383**	145	190
		23,137	21,520	20,200	**16,529**	15,763	14,911
INTEREST EXPENSE							
Deposit liabilities	17	**3,269**	2,992	2,581	**2,021**	2,006	1,849
Bills payable and other borrowings	18, 19, 20, 24	**4,161**	2,951	2,652	**3,945**	2,832	2,519
		7,430	5,943	5,233	**5,966**	4,838	4,368
NET INTEREST INCOME		**15,707**	15,577	14,967	**10,563**	10,925	10,543
IMPAIRMENT LOSSES - Net	16	**1,770**	2,350	2,509	**856**	1,150	1,659
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**13,937**	13,227	12,458	**9,707**	9,775	8,884
OTHER OPERATING INCOME							
Service fees and commissions	2	**3,164**	3,473	2,794	**1,730**	1,793	1,663
Trading and securities gains - net	2, 10	**1,619**	1,327	2,511	**1,663**	1,232	1,835
Trust fees	27	**294**	286	297	**243**	232	255
Foreign exchange gains - net	2, 19	**276**	260	271	**244**	212	233
Share in net earnings of subsidiaries and associates	2, 12	**131**	93	24	**1,500**	1,535	1,582
Miscellaneous - net	25	**1,630**	1,216	1,205	**1,116**	839	567
		7,114	6,655	7,102	**6,496**	5,843	6,135
TOTAL OPERATING INCOME		**21,051**	19,882	19,560	**16,203**	15,618	15,019
OTHER OPERATING EXPENSES							
Employee benefits	24	**5,408**	4,731	4,064	**3,666**	3,190	2,748
Occupancy and equipment-related	28, 29	**2,871**	2,607	2,528	**2,180**	1,917	1,863
Depreciation and amortization	13, 14, 15	**1,766**	1,611	1,577	**985**	1,030	911
Taxes and licenses	14	**1,840**	1,437	1,463	**1,287**	938	1,016
Miscellaneous	25	**5,470**	4,675	4,604	**4,556**	3,396	3,482
		17,355	15,061	14,236	**12,674**	10,471	10,020
PROFIT BEFORE TAX		**3,696**	4,821	5,324	**3,529**	5,147	4,999
TAX EXPENSE (INCOME)	26	**(174)**	(307)	914	**(339)**	18	588
NET PROFIT		**P 3,870**	P 5,128	P 4,410	**P 3,868**	P 5,129	P 4,411
ATTRIBUTABLE TO:							
PARENT COMPANY SHAREHOLDERS		**P 3,868**	P 5,129	P 4,411			
NON-CONTROLLING INTERESTS		**2**	(1)	(1)			
Earnings Per Share		**P 3,870**	P 5,128	P 4,410			
Basic and diluted	30	**P 2.76**	P 3.07	P 3.11	**P 2.76**	P 3.07	P 3.11

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2016**	2015 (As Restated - See Note 2)	2014 (As Restated - See Note 2)	**2016**	2015 (As Restated - See Note 2)	2014 (As Restated - See Note 2)
NET PROFIT		**P 3,870**	P 5,128	P 4,410	**P 3,868**	P 5,129	P 4,411
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Actuarial gains (losses) on defined benefit plan	24	**(325)**	(1,045)	35	**(349)**	(987)	80
Fair value gains (losses) on financial assets at fair value through other comprehensive income	10, 23	**1,442**	(140)	118	**1,395**	(220)	56
		1,117	(1,185)	153	**1,046**	(1,207)	136
Share in other comprehensive income of the subsidiaries and associates:							
Actuarial gains (losses) on defined benefit plan	12, 24	**-**	1	(34)	**24**	(57)	(79)
Fair value gains on financial assets at fair value through other comprehensive income	10, 12, 23	**-**	-	-	**47**	77	62
		-	1	(34)	**71**	20	(17)
Items that will be reclassified subsequently to profit or loss							
Share in other comprehensive income of the subsidiaries - Translation adjustments on foreign operations	23	**25**	(10)	(5)	**25**	(10)	(5)
Total Other Comprehensive Income (Loss)	23	**1,142**	(1,194)	114	**1,142**	(1,197)	114
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 5,012**	P 3,934	P 4,524	**P 5,010**	P 3,932	P 4,525
ATTRIBUTABLE TO:							
PARENT COMPANY SHAREHOLDERS		**P 5,010**	P 3,932	P 4,525			
NON-CONTROLLING INTERESTS		**2**	2	(1)			
		P 5,012	P 3,934	P 4,524			

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS CHANGES IN EQUITY

DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Millions of Philippine Pesos)

		GROUP										
		ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS										
	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2016		P 13,999	P 3	P 22,635	-	(P 518)	P 388	(P 97)	P 21,695	P 58,105	P 24	P 58,129
Transaction with owners	23											
Cash dividends		-	-	-	-	-	-	-	(1,008)	(1,008)	-	(1,008)
Total comprehensive income for the year	23	-	-	-	-	1,142	-	-	3,868	5,010	2	5,012
Transfer of fair value gains on financial assets												
at fair value through other comprehensive income to surplus	23	-	-	-	-	(3)	-	-	3	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	27	-	(27)	-	-	-
		-	-	-	-	1,139	27	-	3,844	4,002	2	4,004
Balance at December 31, 2016		**P 13,999**	**P 3**	**P 22,635**	**-**	**P 621**	**P 415**	**(P 97)**	**P 24,531**	**P 62,107**	**P 26**	**P 62,133**
Balance at January 1, 2015		P 12,757	P 3	P 16,148	P 4,883	P 682	P 366	(P 97)	P 18,367	P 53,109	P 22	P 53,131
Transactions with owners	23											
Issuance of common shares during the year		1,242	-	6,487	-	-	-	-	-	7,729	-	7,729
Redemption of hybrid perpetual securities		-	-	-	(4,883)	-	-	-	(723)	(5,606)	-	(5,606)
Cash dividends		-	-	-	-	-	-	-	(1,059)	(1,059)	-	(1,059)
Total transactions with owners		1,242	-	6,487	(4,883)	-	-	-	(1,782)	1,064	-	1,064
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,197)	-	-	5,129	3,932	2	3,934
Transfer of fair value gains on financial assets												
at fair value through other comprehensive income to surplus	23	-	-	-	-	(3)	-	-	3	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	22	-	(22)	-	-	-
		1,242	-	6,487	(4,883)	(1,200)	22	-	3,328	4,996	2	4,998
Balance at December 31, 2015		P 13,999	P 3	P 22,635	-	(P 518)	P 388	(P 97)	P 21,695	P 58,105	P 24	P 58,129
Balance at January 1, 2014		P 12,757	P 3	P 16,148	P 4,883	P 540	P 348	(P 282)	P 15,905	P 50,302	P 23	P 50,325
Transactions with owners	23											
Effect of retirement of preferred shares		-	-	-	-	-	-	185	(185)	-	-	-
Cash dividends		-	-	-	-	-	-	-	(1,718)	(1,718)	-	(1,718)
Total transactions with owners		-	-	-	-	-	-	185	(1,903)	(1,718)	-	(1,718)
Total comprehensive income (loss) for the year	23	-	-	-	-	114	-	-	4,411	4,525	(1)	4,524
Transfer of fair value losses on financial assets												
at fair value through other comprehensive income to surplus	23	-	-	-	-	28	-	-	(28)	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	18	-	(18)	-	-	-
		-	-	-	-	142	18	185	2,462	2,807	(1)	2,806
Balance at December 31, 2014		P 12,757	P 3	P 16,148	P 4,883	P 682	P 366	(P 97)	P 18,367	P 53,109	P 22	P 53,131

See Notes to Financial Statements.

	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	SURPLUS	TOTAL EQUITY
		PARENT COMPANY							
Balance at January 1, 2016									
As previously reported		P 13,999	P 3	P 22,635	-	(P 458)	P 356	P 14,282	P 50,817
Effect of adoption of PAS 27 (Amendments)	2	-	-	-	-	(60)	-	7,278	7,218
As restated		13,999	3	22,635	-	(518)	356	21,560	58,035
Transaction with owners	23								
Cash dividends		-	-	-	-	-	-	(1,008)	(1,008)
Total comprehensive income for the year	23	-	-	-	-	1,142	-	3,868	5,010
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus	23	-	-	-	-	(3)	-	3	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	22	(22)	-
		-	-	-	-	1,139	22	2,841	4,002
Balance at December 31, 2016		**P 13,999**	**P 3**	**P 22,635**	**P -**	**P 621**	**P 378**	**P 24,401**	**P 62,037**
Balance at January 1, 2015									
As previously reported		P 12,757	P 3	P 16,148	P 4,883	P 749	P 341	P 11,811	P 46,692
Effect of adoption of PAS 27 (Amendments)	2	-	-	-	-	(67)	-	6,414	6,347
As restated		12,757	3	16,148	4,883	682	341	18,225	53,039
Transactions with owners	23								
Issuance of common shares during the year		1,242	-	6,487	-	-	-	-	7,729
Redemption of hybrid perpetual securities		-	-	-	(4,883)	-	-	(723)	(5,606)
Cash dividends		-	-	-	-	-	-	(1,059)	(1,059)
Total transactions with owners		1,242	-	6,487	(4,883)	-	-	(1,782)	1,064
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,197)	-	5,129	3,932
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus	23	-	-	-	-	(3)	-	3	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	15	(15)	-
		1,242	-	6,487	(4,883)	(1,200)	15	3,335	4,996
Balance at December 31, 2015		P 13,999	P 3	P 22,635	-	(P 518)	P 356	P 21,560	P 58,035
Balance at January 1, 2014									
As previously reported		P 12,757	P 3	P 16,148	P 4,883	P 613	P 327	P 9,064	P 43,795
Effect of adoption of PAS 27 (Amendments)	2	-	-	-	-	(73)	-	6,510	6,437
As restated		12,757	3	16,148	4,883	540	327	15,574	50,232
Transaction with owners	23								
Cash dividends		-	-	-	-	-	-	(1,718)	(1,718)
Total comprehensive income for the year	23	-	-	-	-	114	-	4,411	4,525
Transfer of fair value losses on financial assets at fair value through other comprehensive income to surplus	23	-	-	-	-	28	-	(28)	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	14	(14)	-
		-	-	-	-	142	14	2,651	2,807
Balance at December 31, 2014		P 12,757	P 3	P 16,148	P 4,883	P 682	P 341	P 18,225	P 53,039

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2016**	2015	2014	**2016**	2015 As Restated - See Note 2)	2014 As Restated - See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 3,696**	P 4,821	P 5,324	**P 3,529**	P 5,147	P 4,999
Adjustments for:							
Interest income		**(23,137)**	(21,520)	(20,200)	**(16,529)**	(15,763)	(14,911)
Interest received		**23,570**	21,149	19,980	**16,962**	15,593	14,757
Interest expense		**7,430**	5,943	5,233	**5,966**	4,838	4,368
Interest paid		**(7,253)**	(5,861)	(5,162)	**(5,889)**	(4,720)	(4,412)
Impairment losses - net	16	**1,770**	2,350	2,509	**856**	1,150	1,659
Depreciation and amortization	13, 14, 15	**1,766**	1,611	1,577	**985**	1,030	911
Dividend income	25	**(449)**	(237)	(285)	**(307)**	(87)	(107)
Share in net earnings of subsidiaries and associates	12	**(131)**	(93)	(24)	**(1,500)**	(1,535)	(1,582)
Gain on assets sold	14, 25	**(120)**	(281)	(333)	**(139)**	(162)	(18)
Operating profit before working capital changes		**7,142**	7,882	8,619	**3,934**	5,491	5,664
Decrease (increase) in financial assets at fair value through profit and loss		**(12,967)**	11,346	21,018	**(13,082)**	11,069	19,381
Decrease (increase) in financial assets at fair value through other comprehensive income		**(1,471)**	(493)	(76)	**48**	(339)	-
Decrease (increase) in loans and receivables		**(7,263)**	(39,323)	(28,046)	**4,151**	(27,179)	(17,819)
Decrease (increase) in investment properties		**(212)**	1,502	242	**15**	408	657
Decrease (increase) in other resources		**(528)**	(1,469)	942	**354**	(96)	(234)
Increase (decrease) in deposit liabilities		**10,715**	26,601	17,908	**(3,905)**	16,048	4,402
Increase (decrease) in accrued interest, taxes and other expenses		**338**	(89)	(59)	**179**	(15)	(2)
Increase (decrease) in other liabilities		**(256)**	232	(119)	**(1,385)**	(93)	1,940
Cash generated from (used in) operations		**(4,502)**	6,189	20,429	**(9,691)**	5,294	13,989
Cash paid for taxes		**(574)**	(602)	(792)	**(501)**	(540)	(593)
Net Cash From (Used in) Operating Activities		**(5,076)**	5,587	19,637	**(10,192)**	4,754	13,396
CASH FLOWS FROM INVESTING ACTIVITIES							
Increase (decrease) in investment securities at amortized cost		**50,017**	(21,428)	(20,993)	**46,614**	(21,200)	(20,577)
Acquisitions of bank premises, furniture, fixtures, and equipment		**(2,782)**	(1,961)	(912)	**(1,129)**	(1,411)	(573)
Proceeds from disposals of bank premises, furniture, fixtures and equipment	13 13	**834**	461	98	**344**	242	185
Cash dividends received	12, 25	**560**	313	285	**307**	766	1,682
Acquisitions of intangible assets	15	**(294)**	(1,348)	(288)	**(270)**	(1,243)	(124)
Additional investments in and advances to subsidiaries and associates	12	**-**	-	(4)	**-**	(750)	(4)
Net Cash From (Used in) Investing Activities		**48,335**	(23,963)	(21,814)	**45,866**	(23,596)	(19,411)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from (payments of) bills payable	18	**(11,761)**	9,605	(96)	**(14,104)**	8,979	(230)
Dividends paid	23	**(1,008)**	(1,059)	(1,718)	**(1,008)**	(1,059)	(1,718)
Net proceeds from issuance of bonds payable	19	**-**	15,878	-	**-**	15,878	-
Issuance of common stock	23	**-**	7,729	-	**-**	7,729	-
Redemption of hybrid perpetual securities	23	**-**	(5,173)	-	**-**	(5,173)	-
Net proceeds from issuance of subordinated debt	20	**-**	-	9,921	**-**	-	9,921
Net Cash From (Used in) Financing Activities		**(12,769)**	26,980	8,107	**(15,112)**	26,354	7,973
NET INCREASE IN CASH AND CASH EQUIVALENTS		**30,490**	8,604	5,930	**20,562**	7,512	383
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	9	**14,070**	13,085	9,826	**10,127**	9,539	7,563
Due from Bangko Sentral ng Pilipinas	9	**50,617**	46,099	52,491	**42,026**	37,763	48,679
Due from other banks	9	**19,701**	16,600	7,537	**18,196**	15,535	6,212
		84,388	75,784	69,854	**70,349**	62,837	62,454
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	9	**15,176**	14,070	13,085	**11,000**	10,127	9,539
Due from Bangko Sentral ng Pilipinas	9	**66,520**	50,617	46,099	**50,871**	42,026	37,763
Due from other banks	9	**25,293**	19,701	16,600	**24,109**	18,196	15,535
Loans and receivables arising from reverse repurchase agreement	9	**7,889**	-	-	**4,931**	-	-
		P 114,878	P 84,388	P 75,784	**P 90,911**	P 70,349	P 62,837

Supplemental Information on Non-cash Investing and Financing Activities:

1. In 2014, the Parent Company reclassified a portion of RSB Corporate Center including the land where it is located with carrying amount of P1,985 and P419, respectively, from Bank Premises, Furniture, Fixtures, and Equipment to Investment Properties account following the commencement of operating leases for the significant portion of the property during the year. In the consolidated financial statements of the Group, a portion of the property being leased out with gross amount of P1,524 is classified as part of the Investment Properties account in the 2014 statement of financial position. In 2015, building and land amounting to P71 and P12, respectively, were reverted to Bank Premises, Furniture, Fixtures and Equipment due to change in use (see Notes 13 and 14).

2. Prior to 2014, the Group received a 10-year note from Philippine Asset Growth One, Inc. with a face amount of P731 which formed part of the consideration received in relation to the Parent Company's disposal of non-performing assets (see Note 11).

See Notes to Financial Statements.

(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009.

It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. It also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group's and Parent Company's banking network within and outside the Philippines as of December 31 follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Automated teller machines (ATMs)	**1,488**	1,342	**1,047**	906
Branches	**446**	420	**281**	259
Extension offices	**35**	36	**25**	26

RCBC is 41.68% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

The Parent Company's registered address, which is also its principal office, is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates:

Subsidiaries/Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership 2016	2015
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Consumer and retail banking		**100.00**	100.00
RCBC Forex Brokers Corporation (RCBC Forex)	Foreign exchange dealing		**100.00**	100.00
RCBC Telemoney Europe (RCBC Telemoney)	Remittance		**100.00**	100.00
RCBC North America, Inc. (RCBC North America)	Remittance	(a)	**100.00**	100.00
RCBC International Finance Limited (RCBC IFL)	Remittance		**100.00**	100.00
RCBC Investment Ltd.	Remittance	(b)	**100.00**	100.00
RCBC Capital Corporation (RCBC Capital)	Investment house		**99.96**	99.96
RCBC Securities, Inc. (RSI)	Securities brokerage and dealing	(c)	**99.96**	99.96
RCBC Bankard Services Corporation (RBSC)	Credit card management	(c)	**99.96**	99.96
RCBC-JPL Holding Company, Inc. (RCBC JPL)	Property holding		**99.39**	99.39
Merchants Savings and Loan Association, Inc. (Rizal Microbank)	Thrift banking and microfinance		**98.03**	98.03
RCBC Leasing and Finance Corporation (RCBC LFC)	Financial leasing		**97.79**	97.79
RCBC Rental Corporation	Property leasing	(d)	**97.79**	97.79
Special Purpose Companies (SPCs):	Real estate buying and selling	(e)		
Best Value Property and Development Corporation (Best Value)			**100.00**	100.00
Cajel Realty Corporation (Cajel)			**100.00**	100.00
Crescent Park Property and Development Corporation (Crescent Park)			**100.00**	100.00
Crestview Properties Development Corporation (Crestview)			**100.00**	100.00
Eight Hills Property and Development Corporation (Eight Hills)			**100.00**	100.00
Fairplace Property and Development Corporation			**100.00**	100.00
Gold Place Properties Development Corporation (Gold Place)			**100.00**	100.00
Goldpath Properties Development Corporation (Goldpath)			**100.00**	100.00
Greatwings Properties Development Corporation (Greatwings)			**100.00**	100.00
Happyville Property and Development Corporation			**100.00**	100.00
Landview Property and Development Corporation			**100.00**	100.00
Lifeway Property and Development Corporation (Lifeway)			**100.00**	100.00
Niceview Property and Development Corporation (Niceview)			**100.00**	100.00
Niyog Property Holdings, Inc. (NPHI)		(f)	**100.00**	100.00

Subsidiaries/Associates	Line of Business	Effective Percentage of Ownership 2016	2015
SPCs:			
Princeway Properties Development Corporation (Princeway)		**100.00**	100.00
Stockton Realty Development Corporation		**100.00**	100.00
Top Place Properties Development Corporation (Top Place)		**100.00**	100.00
Associates:			
YGC Corporate Services, Inc. (YCS)	Support services for YGC	**40.00**	40.00
Luisita Industrial Park Co. (LIPC)	Real estate buying, developing, selling and rental	**35.00**	35.00
Honda Cars Phils., Inc. (HCPI)	Sale of motor vehicles	**12.88**	12.88

Except for RCBC Telemoney (Italy), RCBC North America (USA), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney and RCBC North America were operational only until March 1, 2016 and March 31, 2014, respectively.

Explanatory Notes:

(a) The Parent Company has 83.97% direct ownership interest and 16.03% indirect ownership interest through RCBC IFL.
(b) A wholly-owned subsidiary of RCBC IFL.
(c) Wholly-owned subsidiaries of RCBC Capital.
(d) A wholly-owned subsidiary of RCBC LFC.
(e) Except for NPHI, the SPCs are wholly-owned subsidiaries of RSB; the SPCs except for NPHI and Cajel, will be liquidated in 2017 pursuant to BSP recommendation (see Note 15.1).
(f) The Parent Company has 48.11% direct ownership interest and 51.89% indirect ownership interest through RSB.

1.3 Approval of Financial Statements

The consolidated financial statements of RCBC and subsidiaries and the separate financial statements of RCBC as of and for the year ended December 31, 2016 (including the comparatives as of December 31, 2015 and for the years ended December 31, 2015 and 2014 and the corresponding figures as of January 1, 2015) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 27, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. The 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 consolidated financial statements of the Group and the separate financial statements of the Parent Company 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 (IASB), and approved by Philippine Board of Accountancy.

These 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 Standards (PAS) 1, *Presentation of Financial Statements.* The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have 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.

The Parent Company made material retrospective restatement in its separate financial statements as of and for the year ended December 31, 2015 and in the corresponding figures as of January 1, 2015 arising from the change in accounting of its investments in subsidiaries and associates from the cost method to the equity method. This is in line with the adoption of PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, effective on January 1, 2016, wherein it provides a third option which permits an entity to account for its investments in subsidiaries, associates and joint ventures under the equity method in its separate financial statements in addition to the current option of accounting those investments at cost or in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* or PFRS 9, *Financial Instruments* [see Note 2.2(a)(iv)].

While the amendment indicates that it is an option, the BSP, through its Circular No. 915, made it a mandatory requirement for banks and non-bank financial institutions to measure such investments using the equity method in their separate financial statements. As a result, the 2015 comparative financial statements and the January 1, 2015 corresponding figures of the Parent Company contained in these financial statements were restated. Accordingly, the Parent Company presents a third statement of financial position as of January 1, 2015 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.* The effect of the restatement is presented in Note 2.2(a)(iv).

Moreover, the Group and the Parent Company made a retrospective reclassification in their statements of financial position as of December 31, 2015 by presenting the Deferred Tax Assets account with an amount of P1,222 and P443, respectively, as of December 31, 2015 (nil as of January 1, 2015) from the Other Resources account to conform with the current presentation. Also, the Group and the Parent Company made a retrospective reclassification in its 2015 and 2014 statements of profit or loss relating to certain accounts within the Other Operating Income account to conform also with the current presentation. These reclassifications did not result in any adjustment to the balances of total resources, total comprehensive income or total equity as previously reported, hence, did not require the presentation of a third statement of financial position. The effects of the reclassification in the specific accounts in the 2015 and 2014 statements of profit or loss, before the effects of the restatements arising from the use of the equity method of accounting under PAS 27 (Amendments) [see Note 2.2(a)(iv)], are as follows:

	December 31, 2015		
	As Previously Reported	Effects of Reclassification	As Restated
Changes in the Group's other operating income:			
Service fees and commissions	P 2,897	P 576	P 3,473
Trading and securities gains – net	1,406	(79)	1,327
Foreign exchange gains – net	181	79	260
Miscellaneous – net	1,885	(576)	1,309
Changes in the Parent Company's other operating income:			
Service fees and commissions	P 1,217	P 576	P 1,793
Trading and securities gains – net	1,311	(79)	1,232
Foreign exchange gains – net	133	79	212
Miscellaneous – net	2,054	(576)	1,478

	December 31, 2014		
	As Previously Reported	Effects of Reclassification	As Restated
Changes in the Group's other operating income:			
Service fees and commissions	P 2,297	P 497	P 2,794
Trading and securities gains – net	2,545	(34)	2,511
Foreign exchange gains – net	237	34	271
Miscellaneous – net	1,726	(497)	1,229
Changes in the Parent Company's other operating income:			
Service fees and commissions	P 1,166	P 497	P 1,663
Trading and securities gains – net	1,869	(34)	1,835
Foreign exchange gains – net	199	34	233
Miscellaneous – net	2,668	(497)	2,171

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.18). All amounts are in millions, except per share data or when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2016 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants
PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

Discussed below are the relevant information about these amendments and improvements.

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, these clarify that the materiality principle applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented in the statement of comprehensive income based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. These further clarify that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment,* and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. On the other hand, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iii) PAS 16 (Amendments), *Property, Plant and Equipment,* and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(iv) PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*. These amendments introduce a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9.

Relative to these amendments, the Parent Company changed its accounting for investment in subsidiaries and associates from the cost to the equity method [see Note 2.1(b)]. The Parent Company has applied PAS 27 (Amendments) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative separate financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015. The effects of the restatement in the affected resources, liabilities and equity components are shown below and in the succeeding page.

	December 31, 2015		
	As Previously Reported	Effects of Using Equity Method	As Restated
Changes in resources:			
Investments in and advances to subsidiaries and associates – net	P 8,748	P 7,136	P 15,884
Other resources – net (including deferred tax assets)	6,201	22	6,223
		7,158	
Changes in liabilities –			
Other liabilities	(9,247)	60	(9,156)
Net increase in equity		P 7,218	

	December 31, 2015		
	As Previously Reported	Effects of Using Equity Method	As Restated
Changes in components of equity:			
Revaluation reserves	(P 458)	(P 60)	(P 518)
Surplus	14,282	7,278	21,560
Net increase in equity		P 7,218	

	January 1, 2015		
	As Previously Reported	Effects of Using Equity Method	As Restated
Changes in resources:			
Investments in and advances to subsidiaries and associates – net	P 7,999	P 6,459	P 14,458
Other resources – net (including deferred tax assets)	5,027	57	5,084
		6,516	
Changes in liabilities –			
Other liabilities	(8,474)	(169)	(8,643)
Net increase in equity		P 6,347	
Changes in components of equity:			
Revaluation reserves	749	(67)	682
Surplus	11,811	6,414	18,225
Net increase in equity		P 6,347	

The effects of the adoption of PAS 27 (Amendments), including the retrospective reclassification in certain accounts [see Note 2.1(b)] in the Parent Company's statements of profit or loss, statements of comprehensive income, and earnings per share (EPS), for the years ended December 31, 2015 and 2014 are shown below and in the succeeding page.

	December 31, 2015		
	As Previously Reported	Effects of Using Equity Method and Retrospective Reclassification	As Restated
Changes in profit or loss:			
Service fees and commissions	P 1,217	P 576	P 1,793
Trading and securities gains – net	1,311	(79)	1,232
Foreign exchange gains – net	133	79	212
Share in net earnings of subsidiaries and associates	-	1,535	1,535
Miscellaneous income – net	2,054	(1,215)	839
Depreciation and amortization	(994)	(36)	(1,030)
Net increase in net profit		P 860	
Basic and diluted EPS	P 2.44	P 0.63	P 3.07

	December 31, 2015		
	As Previously Reported	Effects of Using Equity Method and Retrospective Reclassification	As Restated
Changes in other comprehensive income:			
Share in other comprehensive income of subsidiaries and associates:			
Actuarial losses on defined benefit plan	P -	(P 57)	(P 57)
Fair value gains on financial assets at fair value through other comprehensive income (FVOCI)	-	77	77
Translation adjustments on foreign operations	-	(10)	(10)
Net decrease in other comprehensive losses		P 10	

	December 31, 2014		
	As Previously Reported	Effects of Using Equity Method and Retrospective Reclassification	As Restated
Changes in profit or loss:			
Impairment losses – net	P 1,663	P 4	P 1,659
Service fees and commissions	1,166	497	1,663
Trading and securities gains – net	1,869	(34)	1,835
Foreign exchange gains – net	199	34	233
Share in net earnings of subsidiaries and associates	-	1,582	1,582
Miscellaneous income – net	2,668	(2,101)	567
Depreciation and amortization	(860)	(51)	(911)
Net decrease in net profit		(P 69)	
Basic and diluted EPS	P 3.16	(P 0.05)	P 3.11
Changes in other comprehensive income:			
Share in other comprehensive income of subsidiaries and associates:			
Actuarial losses on defined benefit plan	P -	(P 79)	(P 79)
Fair value gains on financial assets at FVOCI		62	62
Translation adjustments on foreign operations	-	(5)	(5)
Net decrease in other comprehensive income		(P 22)	

The adoption of PAS 27 (Amendments) did not have a material impact on the Parent Company's statement of cash flows for the years ended December 31, 2015 and 2014.

(v) PFRS 10 (Amendments), *Consolidated Financial Statements*, PFRS 12 (Amendments), *Disclosure of Interests in Other Entities*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*. The amendments to PFRS 10 confirm that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. These further clarify that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary. Amendments to PAS 28 permit a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries. In addition, PFRS 12 has been amended to clarify that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12.

(vi) PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*. These amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, *Business Combinations*, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRS, except for those principles that conflict with the guidance in PFRS 11.

(vii) Annual Improvements to PFRS (2012-2014 Cycle). Among the improvements, the following amendments are relevant to the Group:

- PAS 19 (Amendments), *Employee Benefits*. The amendments clarify that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations*. The amendments clarify that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

- PFRS 7 (Amendments), *Financial Instruments – Disclosures*. The amendments provide additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) *Effective in 2016 that is not Relevant to the Group*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Group's financial statements:

PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)		
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendment)	:	Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

(c) *Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2016, 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 Group's financial statements:

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, the amendments suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions – herein referred to as PFRS 9). In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Group on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement for eligible debt securities; and,

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

In view of the Group's early adoption of PFRS 9, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Group. In 2015, the management formed a project team to conduct a comprehensive study on the potential impact of this standard prior to its mandatory adoption. This includes the formulation and review of applicable expected credit loss models and methodologies covering the Group's credit exposures.

(iv) PFRS 15, *Revenue from Contract with Customers*. This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management is currently assessing the impact of this standard on the Group's financial statements.

(v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

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

(vi) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method [see Note 2.2(a)(iv)]. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Earnings of Subsidiaries and Associates account in the statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities. Dividends received are accounted for as reduction in the carrying value of the investment.

Changes resulting from other comprehensive income of the subsidiary or items that have been directly recognized in the subsidiary's equity are recognized in other comprehensive income or equity of the Parent Company as applicable. However, when the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated to the extent of the Parent Company's interest in the subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Parent Company.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) *Purchase method* involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

(ii) *Pooling of interest method* is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in a separate reserve account under equity.

(b) Investments in Associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings of Subsidiaries and Associates account in the Group's statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity of the Group as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

(c) Interest in Jointly Controlled Operation

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) *Transactions with Non-controlling Interests*

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the non-controlling interests component is shown as part of the consolidated statement of changes in equity.

In the Parent Company's financial statements, impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered (see Note 2.19).

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the Group 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

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

Under PFRS 9, 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. The classification and measurement of financial assets are described in the succeeding pages.

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

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.

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables Arising from Reverse Repurchase Agreement, Investment securities at amortized cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances of Due from BSP, Due from Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreement. 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 Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2016 and 2015, the Group has not made such designation.

(ii) Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVPL at initial recognition, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVPL include government securities, corporate bonds, equity securities, which are held for trading purposes or designated as at FVPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

(iii) Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

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

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Group's right to receive dividends is established in accordance with PAS 18 unless the dividends clearly represent recovery of a part of the cost of the investment.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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 Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or,

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) *Financial Assets Carried at Amortized Cost*

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

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

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

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

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

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

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

When a loan receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of impairment losses in profit or loss.

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

(ii) Financial Assets Carried at Fair Value Through Other Comprehensive Income

For securities classified as FVOCI, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

In the case of debt instruments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss. If, in a subsequent period, the fair value of such debt instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) Derecognition of Financial Assets

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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are categorized as Financial Assets at FVPL which are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

2.7 Offsetting Financial Instruments

Financial assets and 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 offset 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 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.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, 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 method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) 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, amortization and any 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.

2.9 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are neither held by the Group for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

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 its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Miscellaneous Income account in the year of retirement or disposal.

2.10 Assets Held-for-Sale and Disposal Group

Assets held-for-sale and disposal group which are presented as part of Other Resources, include real and other properties acquired through repossession, foreclosure or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell.

Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous Income (Expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment
(see Note 2.19). Goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account represent the right given to RSI which is engaged in stock brokerage to preserve access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in realizable value (see Note 2.19).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.12 Other Resources

Other resources excluding items classified as intangible assets pertain to other assets controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

2.13 Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, bonds payable, subordinated debt, accrued interest and other expenses, and other liabilities (except tax-related payables, post-employment defined benefit obligation and deferred income) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable, bonds payable and subordinated debt are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities represent the cumulative changes in the net fair value losses arising from the Group's currency forward transactions and interest rate swaps.

In 2014, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. Starting 2015, BSP approval is no longer necessary as provided by the liberalized rules for banks and quasi-banks on dividend declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.14 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 (e.g., legal dispute or onerous contracts).

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 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 Group 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 Group 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.

The Parent Company offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.15 Equity

Preferred and common stock represent the nominal value of shares of stock that have been issued.

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares of stock are deducted from capital paid in excess of par, net of any related income tax benefits.

Hybrid perpetual securities reflect the net proceeds from the issuance of non-cumulative step-up callable perpetual securities.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

(b) Reserves on remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest);

(c) Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company; and,

(d) Share in other comprehensive income of subsidiaries and associates.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company and a subsidiary to carry to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group and the result of the redemption of the preferred stocks of RSB's subsidiaries. This also includes the excess of cost of investment over the net identifiable assets of an acquired subsidiary under the pooling of interest method.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and comprehensive income and within equity in the consolidated statement of financial position and changes in equity.

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably.

The following specific recognition criteria must also be met before a revenue or expense is recognized:

(a) *Interest Income and Expenses*

These are recognized in the statement of profit or loss for all financial instruments measured at amortized cost and interest-bearing financial assets using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Trading and Securities Gains (Losses)*

These are recognized when the ownership of the securities is transferred to the buyer and is computed at the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains as a result of the mark-to-market valuation of investment securities classified as FVPL.

(c) *Service Fees and Commissions*

These are recognized as follows:

(i) *Finance charges* are recognized on credit card revolving accounts, other than those accounts classified as installment, as income as long as those outstanding account balances are not 90 days and over past due. Finance charges on installment accounts, first year and renewal membership fees are recognized as income when billed to cardholders. Purchases by cardholders which are collected on installment are recorded at the cost of the items purchased.

(ii) Discounts earned, net of interchange costs, are recognized as income upon presentation by member establishments of charges arising from RCBC Bankard and non-RCBC Bankard (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RCBC Bankard's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminal.

(iii) *Late payment fees* are billed on delinquent credit card receivable balances which are at most 179 days past due. These late payment fees are recognized as income upon collection.

(iv) *Loan syndication fees* are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement.

(v) *Service charges and penalties* are recognized only upon collection or accrued where there is a reasonable degree of certainty as to its collectibility.

(vi) *Underwriting fees and commissions* are recorded when services for underwriting, arranging or brokering has been rendered.

(d) *Gains on Assets Sold*

Gains on assets sold are included as part of Miscellaneous income under Other Operating Income account, which arises from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale. This is recognized when the risks and rewards of ownership of the assets is transferred to the buyer, and when the collectibility of the entire sales price is reasonably assured.

Costs and expenses are recognized in profit or loss upon utilization of the resources and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.21).

2.17 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. 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.

(b) *Group as Lessor*

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income in the statement of profit or loss.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

(d) there is a substantial change to the asset.

2.18 Foreign Currency Transactions and Translations

(a) Transactions and Balances

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary resources and liabilities denominated in foreign currencies are recognized in profit or loss, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVPL, are reported as part of fair value gain or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the PDSCR prevailing at the end of each reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVPL and financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Resources and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a component of equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

2.19 Impairment of Non-financial Assets

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment, investment properties, and other resources (including intangible assets) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use and goodwill are tested for impairment at least annually.

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

Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading rights) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount 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 CGU 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 Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life and goodwill, 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 CGU's recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized as follows:

(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 Group, 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 Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

The liability recognized in the statement of financial position for defined benefit post-employment 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 for expected benefit payments using a discount rate derived from the interest rates of zero-coupon government bonds as published by the Philippine Dealing & Exchange Corp. (PDEx), 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and 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. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of 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 Other Interest Income or Expense account in the statement of profit or loss.

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits, and, (ii) 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) *Bonus Plans*

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *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 included in the Accrued Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expense 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 completed.

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.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the 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 recognized by the entities under the Group are offset if they have 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.

2.23 Related Party Relationships and Transactions

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

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

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

2.24 Earnings Per Share

Basic EPS is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

Diluted EPS is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted EPS is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased the instruments.

2.25 Trust and Fiduciary Activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

2.26 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group'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 Group'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 Policies

In the process of applying the Group'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) Evaluation of Business Model Applied in Managing Financial Instruments

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

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

(b) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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 Group 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 Group 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, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group 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 necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(c) *Evaluation of Impairment of Financial Assets at FVOCI*

The determination when a financial asset at FVOCI is other-than-temporarily impaired requires the Group to make judgment. In making this judgment with respect to the Group's outstanding financial assets at FVOCI as of December 31, 2016 (see Note 10.2), the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy, the Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

(d) *Distinction Between Investment Properties and Owner-occupied Properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. 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 Group'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.

The Group considers each property separately in making its judgment. Such evaluation resulted in the reclassification of a significant portion of the Group's certain building properties from Bank Premises, Furniture, Fixtures and Equipment to Investment Properties upon the commencement of an operating lease in 2014 (see Notes 13 and 14).

(e) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements either as a lessor or a lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities. As of December 31, 2016 and 2015, most of the Group's lease arrangements qualify as operating leases except for the various lease agreements of RCBC LFC which are accounted for under finance lease.

(f) *Classification and Determination of Fair Value of Acquired Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale and Disposal Group classified under Other Resources if the Group expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Group determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(g) *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 2.14 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group's and the Parent Company's legal cases and are based upon the analysis of probable results. Although the Group does not believe that its on-going proceedings as disclosed in Note 29 will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

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 each 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) Estimation of Impairment Losses on Loans and Receivables and Investment Securities at Amortized Cost

The Group reviews its loans and receivables portfolio to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Moreover, the Group holds debt securities measured at amortized cost as of December 31, 2016 and 2015. The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of the Group's and Parent Company's loans and receivables and the analysis of the allowance for impairment on such financial assets are shown in Note 11 while the information about the debt securities is disclosed in Note 10.

(b) Determination of Fair Value Measurement for Financial Assets at FVPL and FVOCI

The Group carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 7.2).

The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss and other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Computer Software, Branch Licenses and Trading Rights

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, 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 these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's branch licenses and trading rights were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill and branch licenses are analyzed in Note 15. Based on management's assessment as of December 31, 2016 and 2015, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group 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. The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2016 and 2015 are disclosed in Note 26.1.

(e) *Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in
Note 2.19. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(f) *Determination of Fair Value of Investment Properties*

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

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 key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) *Valuation of Post-employment Defined Benefits*

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

The amounts of post-employment benefit obligation and related income (expense), and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group'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.

A committee system is a fundamental part of the Group's process of managing risk. The following four committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee (EXCOM), which meets weekly, approves credit policies and decides on large counterparty credit facilities and limits. The EXCOM has the authority to pass judgment upon such matters as the BOD may entrust to it for action in between meetings.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for group capital adequacy and risk management covering credit, market and operational risks under Pillar 1 of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit Committee, which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT above the materiality threshold to determine whether or not the transaction is on terms no less favourable to the Parent Company than terms available to any unconnected third party under the same or similar circumstances. On favourable review, the RPT Committee endorses transactions to the BOD for approval.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads including the President of the major subsidiary, RSB, meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT below the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires board approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Committee (AMLCom) was created through an order of the Senior Management Committee on June 24, 2002, for the evaluation of the suspicious transaction reports (STR) reported by different units before submission to the Anti-Money Laundering Council (AMLC). The AMLCom exercises authority over all accounts considered suspicious under the Anti-Money Laundering Act (AMLA), with the principal purpose of assisting the BOD in fulfilling the following oversight responsibilities:

  (i) Preventing the Bank from being used as a conduit for money laundering;
  (ii) Reviewing filed AML cases;
  (iii) Reviewing tagged frozen accounts;
  (iv) Approving/disapproving the filing of an STR escalated by the Compliance Office;
  (v) Monitoring filed STR through the Compliance Office;
  (vi) Adopting an internal guideline on filing of STR and AMLCom disposition; and,
  (vii) Ensuring compliance with BSP rules and regulations relating to anti-money laundering.

  The AMLCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Operational Risk Management Group, Legal Affairs Division as members, and AML Division as the Rapporteur. The AML Division, through the Chief Compliance Officer, reports to the Audit Committee and the BOD its monthly activities including the AMLCom meetings.

The Parent Company established a Corporate Risk Management Services (CRISMS) Group, headed by the Chief Risk Officer, to ensure the consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the risk profile group-wide. In 2016, CRISMS was divided into two sub-groups, the Business Risk Group (BRG) and the Operational Risk Group (ORG), for a more focused and dedicated management of risks. CRISMS is independent of all risk-taking business segments and reports directly to the BOD's ROC. It participates in the CRECOL and ALCO meetings.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5) in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

It is the Group'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 and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's statement of financial position, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group 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 Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes (CLNs) and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Limited User Authority (Type 3). In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps.

4.2 Liquidity Risk

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

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

The Group'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 Group'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 gap analyses as of December 31, 2016 and 2015 are presented below.

	Group 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 46,866	P -	P -	P -	P 68,012	P 114,878
Investments - net	18,729	4,683	9,699	37,347	5,547	76,005
Loans and receivables - net	26,578	52,035	83,224	88,427	55,903	306,167
Other resources - net	7,305	232	1,063	34	15,509	24,143
Total resources	99,478	56,950	93,986	125,808	144,971	521,193
Liabilities:						
Deposit liabilities	51,586	15,147	10,523	-	275,821	353,077
Bills payable	9,552	5,628	20,970	1,493	-	37,643
Bonds payable	13,672	-	27,923	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	8,260	24	-	-	8,509	16,793
Total liabilities	83,070	20,799	69,368	1,493	284,330	459,060
Equity	-	-	-	-	62,133	62,133
Total liabilities and equity	83,070	20,799	69,368	1,493	346,463	521,193
On-book gap	16,408	36,151	24,618	124,315	(201,492)	-
Cumulative on-book gap	16,408	52,559	77,177	201,492	-	-
Contingent resources	14,727	2,032	2,138	-	-	18,897
Contingent liabilities	21,275	2,032	2,138	-	-	25,445
Off-book gap	(6,548)	-	-	-	-	(6,548)
Cumulative off-book gap	(6,548)	(6,548)	(6,548)	(6,548)	(6,548)	-
Periodic gap	**9,860**	**36,151**	**24,618**	**124,315**	**(201,492)**	**(6,548)**
Cumulative total gap	**P 9,860**	**P 46,011**	**P 70,629**	**P 194,944**	**(P 6,548)**	**P -**

	Group					
	2015					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 25,761	P -	P -	P -	P 58,627	P 84,388
Investments - net	20,331	2,246	13,571	71,683	3,733	111,564
Loans and receivables - net	26,051	43,676	63,011	117,598	48,783	299,119
Other resources - net	7,783	283	1,209	48	11,667	20,990
Total resources	79,926	46,205	77,791	189,329	122,318	516,061
Liabilities:						
Deposit liabilities	51,332	16,800	19,202	-	255,028	342,362
Bills payable	20,731	565	17,339	10,769	-	49,404
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	9,422	40	-	-	7,404	16,866
Total liabilities	81,485	17,405	70,820	25,790	262,432	457,932
Equity	-	-	-	-	58,129	58,129
Total liabilities and equity	81,485	17,405	70,820	25,790	320,561	516,061
On-book gap	(1,559)	28,800	6,971	163,539	(197,751)	-
Cumulative on-book gap	(1,559)	27,241	34,212	197,751	-	-
Contingent resources	23,434	2,527	2,353	-	-	28,314
Contingent liabilities	23,605	2,545	2,353	-	-	28,503
Off-book gap	(171)	(18)	-	-	-	(189)
Cumulative off-book gap	(171)	(189)	(189)	(189)	(189)	-
Periodic gap	(1,730)	28,782	6,971	163,539	(197,751)	(189)
Cumulative total gap	(P 1,730)	P 27,052	P 34,023	P 197,562	(P 189)	P -

	Parent Company 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 41,639	P -	P -	P -	P 49,272	P 90,911
Investments - net	16,044	3,378	8,099	33,477	21,832	82,830
Loans and receivables - net	15,271	38,062	47,400	77,804	49,895	228,432
Other resources - net	3,440	5	497	6	11,661	15,609
Total resources	76,394	41,445	55,996	111,287	132,660	417,782
Liabilities:						
Deposit liabilities	40,186	10,418	9,786	-	199,775	260,165
Bills payable	9,552	1,197	19,470	1,493	-	31,712
Bonds payable	13,672	-	27,923	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	4,698	-	-	-	7,623	12,321
Total liabilities	68,108	11,615	67,131	1,493	207,398	355,745
Equity	-	-	-	-	62,037	62,037
Total liabilities and equity	68,108	11,615	67,131	1,493	269,435	417,782
On-book gap	8,286	29,830	(11,135)	109,794	(136,775)	-
Cumulative on-book gap	8,286	38,116	26,981	136,775	-	-
Contingent resources	14,557	2,032	2,138	-	-	18,727
Contingent liabilities	20,911	2,032	2,138	-	-	25,081
Off-book gap	(6,354)	-	-	-	-	(6,354)
Cumulative off-book gap	(6,354)	(6,354)	(6,354)	(6,354)	(6,354)	-
Periodic gap	**1,932**	**29,830**	**(11,135)**	**109,794**	**(136,775)**	**(6,354)**
Cumulative total gap	**P 1,932**	**P 31,762**	**P 20,627**	**P 130,421**	**(P 6,354)**	**P -**

	Parent Company 2015 [As Restated – See Note 2.2(a)(iv)]					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 21,285	P -	P -	P -	P 49,064	P 70,349
Investments - net	17,558	1,433	11,862	63,904	18,917	113,674
Loans and receivables - net	19,256	31,124	29,326	108,175	43,827	231,708
Other resources - net	5,857	4	623	20	7,577	14,081
Total resources	63,956	32,561	41,811	172,099	119,385	429,812
Liabilities:						
Deposit liabilities	35,911	9,185	18,802	-	200,172	264,070
Bills payable	18,228	-	16,819	10,769	-	45,816
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	11,788	-	-	-	803	12,591
Total liabilities	65,927	9,185	69,900	25,790	200,975	371,777
Equity	-	-	-	-	58,035	58,035
Total liabilities and equity	65,927	9,185	69,900	25,790	259,010	429,812
On-book gap	(1,971)	23,386	(28,089)	146,309	(139,635)	-
Cumulative on-book gap	(1,971)	21,415	(6,674)	139,635	-	-
Contingent resources	23,182	2,527	2,353	-	-	28,062
Contingent liabilities	23,182	2,545	2,353	-	-	28,080
Off-book gap	-	(18)	-	-	-	(18)
Cumulative off-book gap	-	(18)	(18)	(18)	(18)	-
Periodic gap	(1,971)	23,368	(28,089)	146,309	(139,625)	(18)
Cumulative total gap	(P 1,971)	P 21,397	(P 6,692)	P 139,617	(P 18)	P -

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company and RSB to maintain asset cover of 100% for foreign currency denominated liabilities of their respective FCDUs, of which 30% must be in liquid assets.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment its gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. The results of these liquidity stress simulations are reported monthly to the ROC.

4.3 Market Risk

The Group'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 risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. While the Parent Company and RSB use VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

    - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

    - VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

    - The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

    - VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

    - In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

    - VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- Net Interest Income (NII)-at-Risk – more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Group employs a gap analysis to measure the interest rate sensitivity of its financial position (local and foreign currencies). As of a given reporting date, the interest rate gap analysis (see Note 4.3.2) measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Group's net interest income. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Group's net interest income. The rate movements assumed for measuring NII-at-Risk are consistent with a 99% confidence level with respect to historical rate volatility, assuming a one-year holding period. The Group considers the sum of NII-at-risk and the VaR of the FVPL and HTC portfolios as the Earnings-at-Risk (EaR) estimate.

- Capital-at-Risk (CaR) – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Group's economic value. The estimate, therefore, must consider the fair valuation effect of rate changes on non-trading positions. This includes both those positions with fair value changes against profit or loss, as well as those with fair value changes booked directly against equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Group sets its CaR limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group			
	At December 31	**Average**	**Maximum**	**Minimum**
2016:				
Foreign currency risk	P 15	P 10	P 28	P 3
Interest rate risk	201	232	425	166
Overall	**P 216**	**P 242**	**P 453**	**P 169**
2015:				
Foreign currency risk	P 15	P 7	P 17	P 2
Interest rate risk	279	245	360	167
Overall	P 294	P 252	P 377	P 169

	Parent Company			
	At December 31	**Average**	**Maximum**	**Minimum**
2016:				
Foreign currency risk	P 15	P 9	P 27	P 3
Interest rate risk	83	102	217	70
Overall	**P 98**	**P 111**	**P 244**	**P 73**
2015:				
Foreign currency risk	P 15	P 7	P 16	P 2
Interest rate risk	118	114	190	64
Overall	P 133	P 121	P 206	P 66

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	**Philippine Pesos**	**Total**
2016:			
Resources:			
Cash and other cash items	P 5,242	P 9,934	P 15,176
Due from BSP	-	66,520	66,520
Due from other banks	23,775	1,518	25,293
Loans and receivables arising from reverse repurchase agreement	-	7,889	7,889
Financial assets at FVPL	15,679	2,400	18,079
Financial assets at FVOCI	1,744	3,935	5,679
Investment securities at amortized cost	40,542	11,322	51,864
Loans and receivables - net	55,148	251,019	306,167
Other resources	112	669	781
	P 142,242	**P 355,206**	**P 497,448**
Liabilities:			
Deposit liabilities	P 92,284	P 260,793	P 353,077
Bills payable	31,709	5,934	37,643
Bonds payable	41,595	-	41,595
Subordinated debt	-	9,952	9,952
Accrued interest and other expenses	1,103	3,427	4,530
Other liabilities	802	8,466	9,268
	P 167,493	**P 288,572**	**P 456,065**
2015:			
Resources:			
Cash and other cash items	P 830	P 13,240	P 14,070
Due from BSP	-	50,617	50,617
Due from other banks	18,977	724	19,701
Financial assets at FVPL	2,040	3,072	5,112
Financial assets at FVOCI	23	4,185	4,208
Investment securities at amortized cost	88,134	13,747	101,881
Loans and receivables - net	42,729	256,390	299,119
Other resources	95	529	624
	P 152,828	P 342,504	P 495,332

	Group		
	Foreign Currencies	Philippine Pesos	Total
2015:			
Liabilities:			
Deposit liabilities	P 73,214	P 269,148	P 342,362
Bills payable	39,141	10,263	49,404
Bonds payable	39,364	-	39,364
Subordinated debt	-	9,936	9,936
Accrued interest and other expenses	770	3,428	4,198
Other liabilities	789	7,955	8,744
	P 153,278	P 300,730	P 454,008

	Parent Company		
	Foreign Currencies	**Philippine Pesos**	**Total**
2016:			
Resources:			
Cash and other cash items	P 1,066	P 9,934	P 11,000
Due from BSP	-	50,871	50,871
Due from other banks	23,561	548	24,109
Loans and receivables arising from reverse repurchase agreement	-	4,931	4,931
Financial assets at FVPL	14,675	2,400	17,075
Financial assets at FVOCI	1,744	1,991	3,735
Investment securities at amortized cost	40,542	4,300	44,842
Loans and receivables - net	55,148	173,284	228,432
Other resources	89	474	563
	P 136,825	**P 248,733**	**P 385,558**
Liabilities:			
Deposit liabilities	P 65,959	P 194,206	P 260,165
Bills payable	31,709	3	31,712
Bonds payable	41,595	-	41,595
Subordinated debt	-	9,952	9,952
Accrued interest and other expenses	750	2,717	3,467
Other liabilities	802	5,677	6,479
	P 140,815	**P 212,555**	**P 353,370**

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2015:			
Resources:			
Cash and other cash items	P 706	P 9,421	P 10,127
Due from BSP	-	42,026	42,026
Due from other banks	17,794	402	18,196
Financial assets at FVPL	2,040	1,953	3,993
Financial assets at FVOCI	23	2,318	2,341
Investment securities at amortized cost	82,979	8,477	91,456
Loans and receivables - net	42,729	188,979	231,708
Advances to RCBC LFC	-	500	500
Other resources	95	384	479
	P 146,366	P 254,460	P 400,826
Liabilities:			
Deposit liabilities	P 66,720	P 197,350	P 264,070
Bills payable	39,141	6,675	45,816
Bonds payable	39,364	-	39,364
Subordinated debt	-	9,936	9,936
Accrued interest and other expenses	750	2,538	3,288
Other liabilities	788	5,119	5,907
	P 146,763	P 221,618	P 368,381

4.3.2 Interest Rate Risk

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial resources and financial liabilities. The Group follows a policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. ALCO meets at least on a weekly basis to set rates for various financial resources and liabilities and trading products. ALCO employs interest rate gap analysis to measure the interest rate sensitivity of those financial instruments.

The interest rate gap analyses of resources and liabilities as of December 31 based on re-pricing maturities are shown below. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;
- Debt securities at amortized cost are bucketed based on their re-pricing profile;
- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,
- For resources and liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

	Group 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 41,866	P -	P -	P -	P 73,012	P 114,878
Investments - net	3,359	4,512	9,196	37,347	21,591	76,005
Loans and receivables - net	142,654	32,138	74,189	33,388	23,798	306,167
Other resources - net	3,165	42	726	587	19,623	24,143
Total resources	191,044	36,692	84,111	71,322	138,024	521,193
Liabilities:						
Deposit liabilities	106,462	27,579	14,055	1	204,980	353,077
Bills payable	17,650	3,933	16,060	-	-	37,643
Bonds payable	13,672	-	27,923	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	625	24	-	-	16,144	16,793
Total liabilities	138,409	31,536	67,990	1	221,124	459,060
Equity	-	-	-	-	62,133	62,133
Total liabilities and equity	138,409	31,536	67,990	1	283,257	521,193
On-book gap	52,635	5,156	16,121	71,321	(145,233)	-
Cumulative on-book gap	52,635	57,791	73,912	145,233	-	-
Contingent resources	21,063	2,032	2,138	-	-	25,233
Contingent liabilities	21,093	2,032	2,138	-	182	25,445
Off-book gap	(30)	-	-	-	(182)	(212)
Cumulative off-book gap	(30)	(30)	(30)	(30)	(212)	-
Periodic gap	**52,605**	**5,156**	**16,121**	**71,321**	**(145,415)**	**(212)**
Cumulative total gap	**P 52,605**	**P 57,761**	**P 73,882**	**P 145,203**	**(P 212)**	**P -**

	Group					
	2015					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 25,641	P -	P -	P -	P 58,747	P 84,388
Investments - net	18,876	2,246	12,106	71,683	6,653	111,564
Loans and receivables - net	138,082	29,671	57,941	51,794	21,631	299,119
Other resources - net	262	34	782	659	19,253	20,990
Total resources	182,861	31,951	70,829	124,136	106,284	516,061
Liabilities:						
Deposit liabilities	86,735	14,311	18,809	-	222,507	342,362
Bills payable	47,197	570	1,637	-	-	49,404
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	472	40	-	-	16,354	16,866
Total liabilities	134,404	14,921	54,725	15,021	238,861	457,932
Equity	-	-	-	-	58,129	58,129
Total liabilities and equity	134,404	14,921	54,725	15,021	296,990	516,061
On-book gap	48,457	17,143	16,228	109,130	(190,958)	-
Cumulative on-book gap	48,457	65,600	81,828	190,958	-	-
Contingent resources	23,434	2,527	2,353	-	-	28,314
Contingent liabilities	23,605	2,545	2,353	-	-	28,503
Off-book gap	(171)	(18)	-	-	-	(189)
Cumulative off-book gap	(171)	(189)	(189)	(189)	(189)	-
Periodic gap	48,286	17,012	16,104	109,115	(190,706)	(189)
Cumulative total gap	P 48,286	P 65,298	P 81,402	P 190,517	(P 189)	P -

	Parent Company 2016					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 41,628	P -	P -	P -	P 49,283	P 90,911
Investments - net	674	3,207	7,596	33,477	37,876	82,830
Loans and receivables - net	132,387	21,221	22,475	30,813	21,536	228,432
Other resources - net	3	5	497	17	15,087	15,609
Total resources	174,692	24,433	30,568	64,307	123,782	417,782
Liabilities:						
Deposit liabilities	61,105	15,326	9,786	-	173,948	260,165
Bills payable	16,301	-	15,411	-	-	31,712
Bonds payable	13,672	-	27,923	-	-	41,595
Subordinated debt	-	-	9,952	-	-	9,952
Other liabilities	514	-	-	-	11,807	12,321
Total liabilities	91,592	15,326	63,072	-	185,755	355,745
Equity	-	-	-	-	62,037	62,037
Total liabilities and equity	91,592	15,326	63,072	-	247,792	417,782
On-book gap	83,100	9,107	(32,504)	64,307	(124,010)	
Cumulative on-book gap	83,100	92,207	59,703	124,010	-	
Contingent resources	14,557	2,032	2,138	-	-	18,727
Contingent liabilities	20,911	2,032	2,138	-	-	25,081
Off-book gap	(6,354)	-	-	-	-	(6,354)
Cumulative off-book gap	(6,354)	(6,354)	(6,354)	(6,354)	(6,354)	-
Periodic gap	**76,746**	**9,107**	**(32,504)**	**64,307**	**(124,010)**	**(6,354)**
Cumulative total gap	**P 76,746**	**P 85,853**	**P 53,349**	**P 117,656**	**(P 6,354)**	**P -**

	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
	Parent Company 2015 [As Restated – See Note 2.2(a)(iv)]					
Resources:						
Cash and cash equivalents	P 21,285	P -	P -	P -	P 49,064	P 70,349
Investments - net	16,103	1,433	10,397	55,162	30,579	113,674
Loans and receivables - net	132,403	20,006	13,367	49,256	16,676	231,708
Other resources - net	-	4	623	28	13,426	14,081
Total resources	169,791	21,443	24,387	104,446	109,745	429,812
Liabilities:						
Deposit liabilities	51,812	6,372	17,555	-	188,331	264,070
Bills payable	44,695	-	1,121	-	-	45,816
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	393	-	-	-	12,198	12,591
Total liabilities	96,900	6,372	52,955	15,021	200,529	371,777
Equity	-	-	-	-	58,035	58,035
Total liabilities and equity	96,900	6,372	52,955	15,021	258,564	429,812
On-book gap	72,891	15,071	(28,568)	89,425	(148,819)	-
Cumulative on-book gap	72,891	87,962	59,394	148,819	-	-
Contingent resources	23,182	2,527	2,353	-	-	28,062
Contingent liabilities	23,182	2,545	2,353	-	-	28,080
Off-book gap	-	(18)	-	-	-	(18)
Cumulative off-book gap	-	(18)	(19)	(18)	(18)	-
Periodic gap	72,891	15,053	(28,568)	89,425	(148,819)	-
Cumulative total gap	P 72,891	P 87,944	P 59,376	P 148,801	(P 18)	P -

The table below summarizes the potential impact on the Group's and Parent Company's annual interest income of parallel rate shifts using the repricing profile shown in the previous pages.

	Changes in Interest Rates (in basis points)			
	- 100	**- 200**	**+ 100**	**+ 200**
December 31, 2016				
Group	**(P 667)**	**(P 1,335)**	**P 667**	**P 1,335**
Parent Company	**(906)**	**(1,811)**	**906**	**1,811**
December 31, 2015				
Group	(P 558)	(P 1,116)	P 558	P 1,116
Parent Company	(789)	(1,578)	789	1,578

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVPL or financial assets at FVOCI as of December 31, 2016 and 2015 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI, estimate the potential loss and determines the market and position risk requirement on equity securities at FVPL in the computation of the market and position risk requirement for all equity positions.

RCAP uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCAP uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group.
The Group 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 Credit and Group Risk Division (CGRD) of CRISMS assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG) on the other hand is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter.

Impairment provisions are recognized for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in particular industry segments that represent a concentration in the Group's financial instrument portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts the Group's exposure to such credit risk, as necessary.

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 Parent Company uses its internal credit risk rating system (ICRRS) to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks, i.e., Especially Mentioned, Substandard, Doubtful or Loss.

Only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts which were rated BB+ to lower than CCC and accounts rated as Especially Mentioned, Substandard, Doubtful and Loss. Significant amount is at least P0.5 for sales contract receivables and P15 for all other loan and receivable accounts.

In the process of applying the Parent Company's ICRRS in determining indications of impairment on individually significant items of loans and receivables, the Parent Company analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC and below*	Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses.
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.
Risk Rating	Rating Description/Criteria
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/ liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

The foregoing ICRRS is established by the Parent Company during the first quarter of 2013 in congruence with and, reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual debt issue which is still performing or current in status. The risk ratings determined by the Parent Company for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

Credit Risk Management Division (CRMD) of RSB is, in turn, tasked to measure, control and manage credit risk on the consumer loans business of RSB through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the Credit Committee and Risk Committee, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality in RSB is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

4.4.1 Exposure to Credit Risk

The carrying amount of financial resources recognized in the financial statements, net of any allowance for losses, which represents the maximum exposure to credit risk, without taking into account the value of any collateral obtained, as of December 31 follows:

	Group			
	2016		2015	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P -**	**P -**	P -	P -
CCC+ and below	**-**	**-**	-	-
Especially Mentioned	**4,055**	**-**	4,091	-
Sub-standard	**1,318**	**-**	1,561	-
Doubtful	**59**	**-**	106	-
Loss	**903**	**-**	1,063	-
Gross amount	**6,335**	**-**	6,821	-
Allowance for impairment	**(1,373)**	**-**	(1,902)	-
Carrying amount	**4,962**	**-**	4,918	-
Collectively Assessed for Impairment				
Unrated	**88,390**	**-**	79,685	-
AAA to AA-	**-**	**-**	975	-
A+ to A-	**-**	**-**	1	-
BBB+ to BBB-	**22,632**	**-**	36,364	-
BB+ to BB	**40,278**	**-**	35,237	-
BB- to BB	**62,455**	**-**	65,349	-
B to B-	**80,706**	**-**	73,615	-
CCC+ and below	**5,198**	**-**	160	-
Especially Mentioned	**154**	**-**	163	-
Sub-standard	**794**	**-**	252	-
Doubtful	**668**	**-**	547	-
Loss	**122**	**-**	131	-
Gross amount	**301,397**	**-**	292,479	-
Unearned interest and discount	**(243)**	**-**	(351)	-
Allowance for impairment	**(4,932)**	**-**	(3,666)	-
Carrying amount	**296,222**	**-**	288,462	-
Unquoted debt securities classified as loans	**1,256**	**-**	1,270	-
Other receivables	**4,893**	**-**	5,940	-
Allowance for impairment	**(1,106)**	**-**	(1,472)	-
Carrying amount	**5,043**	**-**	5,738	-
Neither Past Due Nor Impaired	**-**	**68,378**	-	105,397
Total Carrying Amount	**P 306,167**	**P 68,378**	P 299,119	P 105,397

	Parent Company			
	2016		2015	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P -**	**P -**	P -	P -
CCC+ and below	**-**	**-**	-	-
Especially Mentioned	**-**	**-**	-	-
Sub-standard	**115**	**-**	191	-
Doubtful	**59**	**-**	99	-
Loss	**310**	**-**	389	-
Gross amount	**484**	**-**	679	-
Allowance for impairment	**(384)**	**-**	(491)	-
Carrying amount	**100**	**-**	188	-
Collectively Assessed for Impairment				
Unrated	**15,023**	**-**	17,513	-
AAA to AA-	**-**	**-**	975	-
A+ to A-	**-**	**-**	1	-
BBB+ to BBB-	**22,632**	**-**	36,364	-
BB+ to BB	**40,278**	**-**	35,237	-
BB- to B+	**62,455**	**-**	65,349	-
B to B-	**80,706**	**-**	73,615	-
CCC+ and below	**5,198**	**-**	160	-
Especially Mentioned	**154**	**-**	163	-
Sub-standard	**794**	**-**	252	-
Doubtful	**668**	**-**	547	-
Loss	**121**	**-**	131	-
Gross amount	**228,030**	**-**	230,307	-
Unearned interest and discount	**(226)**	**-**	(240)	-
Allowance for impairment	**(3,426)**	**-**	(3,075)	-
Carrying amount	**224,378**	**-**	226,992	-
Unquoted debt securities classified as loans	**1,196**	**-**	1,210	-
Other receivables	**3,740**	**-**	4,577	-
Allowance for impairment	**(982)**	**-**	(1,259)	-
Carrying amount	**3,954**	**-**	4,528	-
Neither Past Due Nor Impaired	**-**	**61,228**	-	94,909
Total Carrying Amount	**P 228,432**	**P 61,228**	P 231,708	P 94,909

The credit risk for cash and cash equivalents such as Due from BSP, Due from Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement are considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Advances to RCBC LFC in 2015 is not subjected to impairment testing as the amount was transferred for the purpose of additional capital infusion into a consolidated subsidiary (see Note 12.1).

4.4.2 Collateral Held as Security and Other Credit Enhancements

The Group 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. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2016 and 2015.

An estimate of the fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2016 and 2015 is shown below.

	Group	
	2016	2015
Against individually impaired		
Real property	**P 129**	P 129
Chattels	**20**	49
Hold-out deposits	**454**	1,432
Against classified accounts but not impaired		
Real property	**55,097**	62,132
Chattels	**3,041**	7,968
Equity securities	**55**	4,003
Others	**603**	545
Against neither past due nor impaired		
Real property	**146,575**	183,761
Chattels	**71,345**	97,434
Hold-out deposits	**15,925**	16,202
Others	**19,661**	30,895
	P 312,905	P 404,550

	Parent Company	
	2016	2015
Against individually impaired		
Real property	**P 129**	P 129
Chattels	**15**	-
Against classified accounts but not impaired		
Real property	**54,987**	55,361
Chattels	**2,993**	3,797
Equity securities	**55**	4,003
Others	**587**	232
Against neither past due nor impaired		
Real property	**12,503**	4,387
Hold-out deposits	**15,925**	16,202
Others	**19,638**	29,213
	P 106,832	P 113,324

4.4.3 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency.

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 11.1.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyse name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done in the context of ROC meetings.

4.4.4 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company likewise adopted in 2015 a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors. In addition, both the Parent Company and its major subsidiary, RSB, participated in the initial run of the uniform stress testing exercise for banks initiated by the BSP.

4.5 Operational Risk

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

The Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMD applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

- KRIs are used to monitor the operational risk profile of the Group and of each business unit, and alert management of impending problems in a timely fashion;

- Internal loss information is collected, reported, and utilized to model operational risk; and,

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to Capital Adequacy, is currently under Basic Indicator Approach (see Note 5.2). In 2014, the Parent Bank's BOD approved the acquisition of an Operational Risk System which was implemented across the Group in 2015.

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Public Relations Committee chaired by the head of the Parent Company's Public and Media Relations Division.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The 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. Meanwhile, the Terrorism Financing Prevention and Suppression Act (CFT) passed in June 2012 by virtue of RA No. 10168.

Under the AMLA, as amended, the Group 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 Group is also required to submit STRs to the AMLC. STRs are reports involving transactions where specific circumstances exist and there are reasonable grounds to believe that the transactions are suspicious.

The AMLA requires the Group to safe keep, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including 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 Group 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 Group 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.

The Group'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 Group Head's approval is necessary.

The Group'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 2016, the Group instituted reforms aimed to reinforce its AML/CFT controls. The Group 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 Group has embarked on a re-engineering of its settlements and business center operations, and the consolidation and strengthening of its fraud management framework.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, RSB, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P2,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) Common Equity Tier 1 Capital includes the following:

(i) paid-up common stock;
(ii) common stock dividends distributable;
(iii) additional paid-in capital;
(iv) deposit for common stock subscription;
(v) retained earnings;
(vi) undivided profits;
(vii) other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
(viii) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

(i) instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
(ii) financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
(iii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
(iv) additional paid-in capital resulting from issuance of AT1 capital;
(v) deposit for subscription to AT1 instruments; and,
(vi) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

(i) instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
(ii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
(iii) deposit for subscription of Tier 2 capital;
(iv) appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB);
(v) general loan loss provisions; and,
(vi) minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

Calculation of Risk-based Capital Adequacy Ratio. The total Qualifying Capital is expressed as a percentage of Total Risk Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by credit risk mitigation (CRM).

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular 538.

The Group's and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as of December 31, 2016 and 2015 follows:

	Group	Parent Company
2016:		
Tier 1 Capital		
CET 1	P 49,842	P 37,659
AT1	3	3
	49,845	37,662
Tier 2 Capital	12,622	12,048
Total Qualifying Capital	**P 62,467**	**P 49,710**
Total Risk – Weighted Assets	**P 386,663**	**P 306,268**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	**16.16%**	**16.23%**
Tier 1 Capital Ratio	**12.89%**	**12.30%**
Total CET 1 Ratio	**12.89%**	**12.30%**
2015:		
Tier 1 Capital		
CET 1	P 48,779	P 37,940
AT1	3	3
	48,782	37,943
Tier 2 Capital	12,325	11,894
Total Qualifying Capital	P 61,107	P 49,837
Total Risk – Weighted Assets	P 388,804	P 318,935
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk weighted assets	15.72%	15.63%
Tier 1 Capital Ratio	12.55%	11.90%
Total CET 1 Ratio	12.55%	11.90%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

(b) The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

(c) The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a business-as-usual (BAU) and stressed scenario;

(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

(e) The Bank's ICAAP document must be submitted to the BSP every January 31 of each year, beginning 2011.

The Group submitted its first ICAAP trial document in January 2009. Subsequent revisions to the trial document were made, and likewise submitted in February 2010 and May 2010 following regulatory review and the Group's own process enhancements. Complementing the ICAAP document submissions were dialogues between the BSP and the Group's representatives, the second of which transpired last November 2010 between a BSP panel chaired by the Deputy Governor for Supervision and Examination, and the members of Parent Company's EXCOM. The Group submitted its final ICAAP document within the deadline set by the BSP. Henceforth up to 2014, the annual submission of an ICAAP document is due every January 31st and every March 31st starting in 2015, as prescribed by the BSP.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Concentration is estimated using a simplified application of the HHI, and translated to risk-weighted assets as suggested by some European central bank practices. The Group plans to continuously build on this concentration assessment methodology, recognizing the inherent limitations of the HHI.

(b) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(c) *Interest Rate Risk in the Banking Book (IRRBB)* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group estimates interest rate risk in the banking book as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(d) *Compliance/Regulatory Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. The Group estimates compliance risk as the sum of regulatory fines and penalties, and forecasts this amount in relation to the level of operating expenses. The resulting figure is treated as a deduction from regulatory qualifying capital. In 2013, the Group decided to henceforth broaden its analysis of this risk to account for regulatory benchmarks and other regulations that the Group has not been in compliance with, as noted by past BSP examinations.

(e) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Public Relations Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy.

(g) *Information Technology Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of those financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	P 114,878	P 114,878	P 84,388	P 84,388
Investment securities	51,864	49,698	101,881	99,715
Loans and receivables - net	306,167	306,167	299,119	299,119
Other resources	781	781	624	624
	473,690	471,524	486,012	483,846
At FVPL	18,079	18,079	5,112	5,112
At FVOCI	5,679	5,679	4,208	4,208
	P 497,448	P 495,282	P 495,332	P 493,116
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 353,077	P 353,077	P 342,362	P 342,362
Bills payable	37,643	37,643	49,404	49,404
Bonds payable	41,595	43,929	39,364	42,961
Subordinated debt	9,952	10,746	9,936	10,730
Accrued interest and other expenses	4,584	4,584	4,198	4,198
Other liabilities	8,883	8,883	8,479	8,479
	455,680	458,808	457,962	458,134
Derivative financial liabilities	385	385	265	265
	P 456,065	P 459,193	P 454,008	P 458,399

	Parent Company			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
At amortized cost				
Cash and cash equivalents	P 90,911	P 90,911	P 70,349	P 70,349
Investment securities	44,842	43,931	91,456	89,781
Advances to RCBC LFC	-	-	500	500
Loans and receivables - net	228,432	228,432	231,708	231,708
Other resources	466	466	479	479
	364,651	363,740	394,492	392,817
At FVPL	17,075	17,075	3,993	3,993
At FVOCI	3,735	3,735	2,341	2,341
	P 385,461	P 384,550	P 400,826	P 399,151
Financial Liabilities				
At amortized cost:				
Deposit liabilities	P 260,165	P 260,165	P 264,070	P 264,070
Bills payable	31,712	31,712	45,816	45,816
Bonds payable	41,595	44,175	39,364	42,961
Subordinated debt	9,952	10,653	9,936	10,730
Accrued interest and other expenses	3,515	3,515	3,288	3,288
Other liabilities	6,094	6,094	5,642	5,642
	352,985	356,266	368,116	372,507
Derivative financial liabilities	385	385	265	265
	P 353,370	P 356,651	P 368,381	P 372,772

Except for investment securities at amortized cost, bonds payable and subordinated debt with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group's and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

		Group			
		Gross amounts recognized in the statements of financial position	**Related amounts not set off in the statements of financial position**		
	Notes		**Financial instruments**	**Cash received**	**Net amount**
December 31, 2016					
Loans and receivables – Receivable from customers	11	**P 305,659**	**(P 16,379)**	**P -**	**P 289,280**
Other resources – Margin deposits	15	**20**	**-**	**(20)**	**-**

		Group			
		Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		
	Notes		Financial instruments	Cash received	Net amount
December 31, 2015					
Loans and receivables – Receivable from customers	11	P 296,891	(P 17,634)	P -	P 279,257
Other resources – Margin deposits	15	42	-	(42)	-

		Parent Company			
		Gross amounts recognized in the statements of financial position	**Related amounts not set off in the statements of financial position**		
	Notes		**Financial instruments**	**Cash received**	**Net amount**
December 31, 2016					
Loans and receivables – Receivable from customers	11	**P 227,724**	**(P 15,925)**	**P -**	**P 211,799**
Other resources – Margin deposits	15	**20**	**-**	**(20)**	**-**
December 31, 2015					
Loans and receivables – Receivable from customers	11	P 230,070	(P 16,202)	P -	P 213,868
Other resources – Margin deposits	15	42	-	(42)	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

		Group			
		Gross amounts recognized in the statements of financial position	**Related amounts not set off in the statements of financial position**		
	Notes		**Financial instruments**	**Cash received**	**Net amount**
December 31, 2016					
Deposit liabilities	17	**P 353,077**	**(P 16,379)**	**P -**	**P 336,698**
Other liabilities – Derivative financial liabilities	22	**385**	**-**	**(20)**	**365**
December 31, 2015					
Deposit liabilities	17	P 342,362	(P 17,634)	P -	P 212,507
Other liabilities – Derivative financial liabilities	22	265	-	(42)	223

		Parent Company			
		Gross amounts recognized in the statements of financial position	**Related amounts not set off in the statements of financial position**		
	Notes		**Financial instruments**	**Cash received**	**Net amount**
December 31, 2016					
Deposit liabilities	17	**P 260,165**	**(P 15,925)**	**P -**	**P 244,240**
Other liabilities – Derivative financial liabilities	22	**385**	**-**	**(20)**	**365**

		Parent Company			
		Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		
	Notes		Financial instruments	Cash received	Net amount
December 31, 2015					
Deposit liabilities	17	P 264,070	(P 16,202)	P -	P 247,868
Other liabilities – Derivative financial liabilities	22	265	-	(42)	223

For financial assets and liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Group and its counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits which serve as the Group’s collateral enhancement for certain loans and receivables; and, (b) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group’s obligations to counterparties.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 *Fair Value Hierarchy*

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 *Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2016 and 2015.

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2016:				
Financial assets at FVPL:				
Government securities	P 14,822	P -	P -	P 14,822
Corporate debt securities	514	-	-	514
Equity securities	979	-	586	1,565
Derivative assets	31	1,147	-	1,178
	16,346	1,147	586	18,079
Financial assets at FVOCI –				
Equity securities	2,015	192	3,472	5,679
Total Resources at Fair Value	**P 18,361**	**P 1,339**	**P 4,058**	**P 23,758**
Derivative liabilities	**P -**	**P 385**	**P -**	**P 385**

	Group			
	Level 1	Level 2	Level 3	Total
2015:				
Financial assets at FVPL:				
Government securities	P 1,093	P 163	P -	P 1,256
Corporate debt securities	522	-	-	522
Equity securities	1,229	-	367	1,596
Derivative assets	57	1,681	-	1,738
	2,901	1,844	367	5,112
Financial assets at FVOCI – Equity securities	1,867	176	2,165	4,208
Total Resources at Fair Value	P 4,768	P 2,020	P 2,532	P 9,320
Derivative liabilities	P -	P 265	P -	P 265

	Parent Company			
	Level 1	**Level 2**	**Level 3**	**Total**
2016:				
Financial assets at FVPL:				
Government securities	P 14,790	P -	P -	P 14,790
Corporate debt securities	418	-	-	418
Equity securities	103	-	586	689
Derivative assets	31	1,147	-	1,178
	15,342	1,147	586	17,075
Financial assets at FVOCI – Equity securities	2,015	185	1,535	3,735
Total Resources at Fair Value	**P 17,357**	**P 1,332**	**P 2,121**	**P 20,810**
Derivative liabilities	**P -**	**P 385**	**P -**	**P 385**
2015:				
Financial assets at FVPL:				
Government securities	P 1,093	P 100	P -	P 1,193
Corporate debt securities	522	-	-	522
Equity securities	173	-	367	540
Derivative assets	57	1,681	-	1,738
	1,845	1,781	367	3,993
Financial assets at FVOCI – Equity securities	-	176	2,165	2,341
Total Resources at Fair Value	P 1,845	P 1,957	P 2,532	P 6,334
Derivative liabilities	P -	P 265	P -	P 265

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government securities and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period. On the other hand, government securities with fair value categorized within Level 2 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., PDEx).

The fair value of the Group's government securities categorized under Level 2 of the hierarchy is estimated and determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., government bonds or notes). In applying this pricing methodology, the yield of the underlying securities is interpolated between the observable yields to consider any gaps in the maturities of the benchmark securities used to develop a benchmark curve.

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of December 31, 2016 and 2015 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and categorized within Level 3, their fair value is determined through the net asset value or a market-based approach valuation technique (price-to-book value method) using current market values of comparable listed entities. The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities as of December 31, 2016 ranges from 0.746:1 to 2.797:1 for financial assets at FVPL.

Increase (decrease) in the price-to-book ratio and net asset value would result in higher (lower) fair values, all else equal.

A reconciliation of the carrying amounts of level 3 equity securities at the beginning and end of 2016 and 2015 is shown below.

	Group		
	Financial Assets at FVOCI	**Financial Assets at FVPL**	**Total**
2016:			
Balance at beginning of year	P 2,165	P 367	P 2,532
Additions	3,573	-	3,573
Fair value gains (losses)	(251)	219	(32)
Transfer to level 1	(2,015)	-	(2,015)
Balance at end of year	**P 3,472**	**P 586**	**P 4,058**
2015:			
Balance at beginning of year	P 2,099	P 329	P 2,428
Additions	326	-	326
Fair value gains (losses)	(260)	38	(222)
Balance at end of year	P 2,165	P 367	P 2,532

	Parent Company		
	Financial Assets at FVOCI	Financial Assets at FVPL	Total
2016:			
Balance at beginning of year	P 2,165	P 367	P 2,532
Additions	-	-	-
Fair value gains	1,385	219	1,789
Transfer to level 1	(2,015)	-	(2,015)
Balance at end of year	**P 1,535**	**P 586**	**P 2,121**
2015:			
Balance at beginning of year	P 2,099	P 329	P 2,428
Additions	-	-	-
Fair value gains	66	38	104
Balance at end of year	P 2,165	P 367	P 2,532

In 2015, the Parent Company exercised its stock rights on a certain investee which resulted into additional investment amounting to P326.

The transfer to level 1 in 2016 pertains to a certain equity investment in an entity which shares of stock were publicly listed in the PSE in November 2016.

(c) *Derivative Assets and Liabilities*
The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available for an identical instrument in an active market at the end of each of the reporting period.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
2016:				
Financial Assets:				
Cash and other cash items	P 15,176	P -	P -	P 15,176
Due from BSP	66,520	-	-	66,520
Due from other banks	25,293	-	-	25,293
Loans and receivables arising from reverse repurchase agreement	7,889	-	-	7,889
Investment securities at amortized cost	49,698	-	-	49,698
Loans and receivables - net	-	-	306,167	306,167
Other resources	-	-	781	781
	P 164,576	**P -**	**P 306,948**	**P 471,524**

	Group			
	Level 1	Level 2	Level 3	Total
2016:				
Financial Liabilities:				
Deposit liabilities	P 353,077	P	P -	P 353,077
Bills payable	-	37,643	-	37,643
Bonds payable	-	43,929	-	43,929
Subordinated debt	-	10,746	-	10,746
Accrued interest, taxes and other expenses	-	-	4,530	4,530
Other liabilities	-	-	8,883	8,883
	P 353,077	**P 92,318**	**P 13,413**	**P 458,808**
2015:				
Financial Assets:				
Cash and other cash items	P 14,070	P -	P -	P 14,070
Due from BSP	50,617	-	-	50,617
Due from other banks	19,701	-	-	19,701
Investment securities at amortized cost	99,715	-	-	99,715
Loans and receivables - net	-	-	299,119	299,119
Other resources	-	-	624	624
	P 184,103	P -	P 299,743	P 483,846
Financial Liabilities:				
Deposit liabilities	P 342,362	P -	P -	P 342,362
Bills payable	-	49,404	-	49,404
Bonds payable	-	42,961	-	42,961
Subordinated debt	-	10,730	-	10,730
Accrued interest, taxes and other expenses	-	-	4,198	4,198
Other liabilities	-	-	8,479	8,479
	P 342,362	P 103,095	P 12,677	P 458,134

	Parent Company			
	Level 1	Level 2	Level 3	Total
2016:				
Financial Assets:				
Cash and other cash items	P 11,000	P -	P -	P 11,000
Due from BSP	50,871	-	-	50,871
Due from other banks	24,109	-	-	24,109
Loans and receivables arising from reverse repurchase agreement	4,931	-	-	4,931
Investment securities at amortized cost	43,931	-	-	43,931
Loans and receivables - net	-	-	228,432	228,432
Other resources	-	-	466	466
	P 134,842	**P -**	**P 228,898**	**P 363,740**

	Parent Company			
	Level 1	**Level 2**	**Level 3**	**Total**
2016:				
Financial Liabilities:				
Deposit liabilities	P 260,165	P -	P -	P 260,165
Bills payable	-	31,712	-	31,712
Bonds payable	-	44,175	-	44,175
Subordinated debt	-	10,653	-	10,653
Accrued interest, taxes and other expenses	-	-	3,467	3,467
Other liabilities	-	-	6,094	6,094
	P 260,165	**P 86,540**	**P 9,561**	**P 356,266**
2015:				
Financial Assets:				
Cash and other cash items	P 10,127	P -	P -	P 10,127
Due from BSP	42,026	-	-	42,026
Due from other banks	18,196	-	-	18,196
Investment securities at amortized cost	89,781	-	-	89,781
Loans and receivables - net	-	-	231,708	231,708
Advances to RCBC LFC	-	-	500	500
Other resources	-	-	479	479
	P 160,130	P -	P 232,687	P 392,817
Financial Liabilities:				
Deposit liabilities	P 264,070	P -	P -	P 264,070
Bills payable	-	45,816	-	45,816
Bonds payable	-	42,961	-	42,961
Subordinated debt	-	10,730	-	10,730
Accrued interest, taxes and other expenses	-	-	3,288	3,288
Other liabilities	-	-	5,642	5,642
	P 264,070	P 99,507	P 8,930	P 372,507

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreement

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Investment Securities at Amortized Cost

The fair value of investment securities at amortized cost is determined by direct reference to published price quoted in an active market for traded securities.

(c) *Loans and Receivables and Advances to RCBC LFC*

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables and Advances to RCBC LFC, except in 2016 (see Note 12), 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.

(d) *Deposits Liabilities and Borrowings*

The estimated fair value of deposits is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of bonds payable and subordinated debt is computed based on the average of published ask and bid prices.

(e) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P4,700 and P4,635 in the Group's financial statements and P5,799 and P5,702 in the Parent Company's financial statements as of December 31, 2016 and 2015, respectively. The fair value hierarchy of these properties as of December 31, 2016 and 2015 is categorized as Level 3.

The fair values of the Group's and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

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

There has been no change in the valuation techniques during the year.

8. SEGMENT INFORMATION

8.1 Business Segments

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the business centers offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products.

(b) *Corporate* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of the Parent Company's various support groups and consolidated subsidiaries, except for RSB and Rizal Microbank which are presented as part of Retail.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2016 and 2015.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2016, 2015 and 2014 follow:

	Retail	Corporate	Treasury	Others	Total
2016:					
Revenues					
From external customers					
Interest income	P 17,075	P 13,064	P 3,946	P 385	P 34,471
Interest expense	(3,199)	(7,598)	(2,960)	(204)	(13,961)
Net interest income	13,876	5,466	986	182	20,510
Non-interest income	3,624	1,328	1,960	1,172	8,084
	17,500	6,794	2,946	1,354	28,595
Intersegment revenues					
Interest income	-	2,235	-	4	2,239
Non-interest income	-	-	-	460	460
	-	2,235	-	464	2,699
Total revenues	17,500	9,029	2,946	1,818	31,294
Expenses					
Operating expenses excluding depreciation and amortization	10,889	1,756	546	1,187	14,378
Depreciation and amortization	797	83	9	286	1,175
	11,686	1,839	555	1,473	15,552
Segment operating income	**P 5,815**	**P 7,190**	**P 2,391**	**P 345**	**P 15,742**
Total resources and liabilities					
Total resources	**P 122,617**	**P 227,502**	**P 98,302**	**P 12,899**	**P 461,320**
Total liabilities	**P 363,468**	**P 155,872**	**P 28,297**	**P 7,264**	**P 554,901**

	Retail	Corporate	Treasury	Others	Total
2015:					
Revenues					
From external customers					
Interest income	P 13,372	P 11,280	P 2,715	P 285	P 27,651
Interest expense	(2,716)	(4,078)	(2,740)	(130)	(9,663)
Net interest income (expense)	10,656	7,202	(25)	155	17,988
Non-interest income	3,940	1,559	1,606	1,253	8,355
	14,596	8,761	1,581	1,408	26,342
Intersegment revenues					
Interest income	-	2,169	-	6	2,175
Non-interest income	-	3	-	410	413
	-	2,172	-	416	2,588
Total revenues	14,596	10,930	1,581	1,824	28,930
Expenses					
Operating expenses, excluding depreciation and amortization	11,066	2,071	433	1,520	15,089
Depreciation and amortization	671	95	9	133	908
	11,737	2,166	442	1,654	15,998
Segment operating Income	P 2,859	P 8,764	P 1,139	P 170	P 12,933
Total resources and liabilities					
Total resources	P 366,155	P 283,356	P 93,941	P 10,582	P 754,034
Total liabilities	P 366,155	P 283,356	P 93,941	P 10,582	P 754,034
2014:					
Revenues					
From external customers					
Interest income	P 11,474	P 7,455	P 3,234	P 291	P 22,454
Interest expense	(2,718)	(3,275)	(3,071)	(137)	(9,201)
Net interest income	8,756	4,180	163	154	13,253
Non-interest income	3,578	1,141	1,677	1,411	7,807
	12,334	5,322	1,840	1,565	21,060
Intersegment revenues					
Interest income	-	1,939	-	11	1,949
Non-interest income	-	237	-	392	629
	-	2,175	-	403	2,578
Total revenues	12,334	7,497	1,840	1,968	23,639
Expenses					
Operating expenses excluding depreciation and amortization	9,535	1,317	489	1,100	12,441
Depreciation and amortization	794	148	6	176	1,124
	10,329	1,465	495	1,276	13,565
Segment operating income	P 2,005	P 6,032	P 1,345	P 691	P 10,073

	Retail	Corporate	Treasury	Others	Total
2014:					
Total resources and liabilities					
Total resources	P 329,231	P 198,852	P 98,490	P 10,180	P 637,203
Total liabilities	P 329,231	P 198,852	P 98,490	P 10,180	P 637,203

8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2016	2015	2014
Revenue			
Total segment revenues	**P 31,294**	P 28,930	P 23,639
Unallocated income	**(5,587)**	(3,932)	1,151
Elimination of intersegment revenues	**(2,886)**	(2,766)	(2,721)
Revenues as reported in profit or loss	**P 22,821**	P 22,232	P 22,069
Profit or loss			
Total segment operating income	**P 15,742**	P 12,933	P 10,073
Unallocated profit	**(9,633)**	(5,627)	(3,530)
Elimination of intersegment profit	**(2,239)**	(2,178)	(2,133)
Group net profit as reported in profit or loss	**P 3,870**	P 5,128	P 4,410
Resources			
Total segment resources	**P 461,320**	P 754,034	P 637,203
Unallocated assets	**62,291**	(235,675)	(176,376)
Elimination of intersegment assets	**(2,418)**	(2,297)	(2,922)
Total resources	**P 521,193**	P 516,061	P 457,905
Liabilities			
Total segment liabilities	**P 554,901**	P 754,034	P 637,203
Unallocated liabilities	**(5,587)**	(298,804)	(229,507)
Elimination of intersegment liabilities	**(2,886)**	(2,297)	(2,922)
Total liabilities	**P 459,060**	P 457,932	P 404,774

8.4 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2016, 2015 and 2014 follow:

	Philippines	**United States**	**Asia and Europe**	**Total**
2016:				
Statement of profit or loss				
Total income	P 30,225	P -	P 28	P 30,253
Total expenses	26,306	2	75	26,383
Net profit (loss)	**P 3,919**	**(P 2)**	**(P 47)**	**P 3,870**

	Philippines	United States	Asia and Europe	Total
2016:				
Statement of financial position				
Total resources	**P 521,018**	**P 1**	**P 174**	**P 521,193**
Total liabilities	**P 458,967**	**P -**	**P 93**	**P 459,060**
Other segment Information – Depreciation and amortization	**P 1,766**	**P -**	**P -**	**P 1,766**
2015:				
Statement of profit or loss				
Total income	P 28,299	P -	P 183	P 28,482
Total expenses	23,176	4	174	23,354
Net profit (loss)	P 5,123	(P 4)	P 9	P 5,128
Statement of financial position				
Total resources	P 515,602	P 3	P 456	P 516,061
Total liabilities	P 457,599	P -	P 333	P 457,932
Other segment information – Depreciation and amortization	P 1,609	P -	P 2	P 1,611
2014:				
Statement of profit or loss				
Total income	P 27,105	P 3	P 194	P 27,302
Total expenses	22,692	17	183	22,892
Net profit (loss)	P 4,413	(P 14)	P 11	P 4,410
Statement of financial position				
Total resources	P 457,454	P 7	P 444	P 457,905
Total liabilities	P 404,448	P 8	P 318	P 404,774
Other segment Information – Depreciation and amortization	P 1,575	P -	P 2	P 1,577

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group		Parent Company	
	2016	2015	**2016**	2015
Cash and other cash items	**P 15,176**	P 14,070	**P 11,000**	P 10,127
Due from BSP	**66,520**	50,617	**50,871**	42,026
Due from other banks	**25,293**	19,701	**24,109**	18,196
Loans and receivables arising from reverse repurchase agreement	**7,889**	-	**4,931**	-
	P 114,878	P 84,388	**P 90,911**	P 70,349

Cash consists primarily of funds in the form of Philippine currency notes and coins and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items (other than currency and coins on hand), such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Notes 17 and 27), to serve as clearing account for interbank claims and to comply with existing trust regulations. The balance of Due from BSP also includes Overnight Deposit and Term Deposit Account amounting to P7,005 and P13,500 for the Group and P3,800 and P9,000 for the Parent Company, respectively, which bear annual interest at 2.5% and 3.3% as of December 31, 2016. For December 31, 2015 and 2014, the balance of Due from BSP also includes special deposit account amounting to P4,505 and P5,999 for the Group and P3,000 and P3,301 for the Parent Company, which bear annual interest at 2.50% in 2015, and annual interest range of 2.00% to 2.50% in 2014.

The balance of Due from Other Banks account represents regular deposits with the following:

	Group		Parent Company	
	2016	2015	**2016**	2015
Foreign banks	**P 23,232**	P 18,295	**P 23,043**	P 17,732
Local banks	**2,061**	1,406	**1,066**	464
	P 25,293	P 19,701	**P 24,109**	P 18,196

The breakdown of Due from Other Banks by currency is shown below.

	Group		Parent Company	
	2016	2015	**2016**	2015
Foreign currencies	**P 23,775**	P 18,977	**P 23,561**	P 17,794
Philippine peso	**1,518**	724	**548**	402
	P 25,293	P 19,701	**P 24,109**	P 18,196

Interest rates per annum on these deposits range from 0.35% to 1.00% in 2016, and 0.00% to 0.30% in 2015, and 0.00% to 1.00% in 2014.

The Group has loans and receivables from BSP as of December 31, 2016 (nil as of December 31, 2015) arising from overnight lending from excess liquidity which earn effective interest of 3.00% in 2016. These loans normally mature within 30 days. Interest income earned from these financial assets is presented under Interest Income in the 2016 statement of profit or loss.

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group		Parent Company	
	2016	2015	**2016**	2015
Financial assets at FVPL	**P 18,079**	P 5,112	**P 17,075**	P 3,993
Financial assets at FVOCI	**5,679**	4,208	**3,735**	2,341
Investment securities at amortized cost	**51,864**	101,881	**44,842**	91,456
	P 75,622	P 111,201	**P 65,652**	P 97,790

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	Group				Parent Company			
	2016		2015		**2016**		2015	
Government securities	**P**	**14,822**	P	1,256	**P**	**14,790**	P	1,193
Corporate debt securities		**514**		522		**418**		522
Equity securities		**1,565**		1,596		**689**		540
Derivative financial assets		**1,178**		1,738		**1,178**		1,738
	P	**18,079**	P	5,112	**P**	**17,075**	P	3,993

The carrying amounts of financial assets at FVPL are classified as follows:

	Group				Parent Company			
	2016		2015		**2016**		2015	
Held-for-trading	**P**	**15,336**	P	1,778	**P**	**15,209**	P	1,715
Designated as at FVPL		**1,565**		1,596		**689**		540
Derivatives		**1,178**		1,738		**1,178**		1,738
	P	**18,079**	P	5,112	**P**	**17,075**	P	3,993

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2016	2015	2014
Peso denominated	**1.63% - 12.13%**	2.63% - 8.44%	1.63% - 12.38%
Foreign currency denominated	**1.30% - 11.63%**	3.45% - 9.63%	0.05% - 10.63%

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVPL.

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year. Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group's and Parent Company's financial statements are shown below.

	Notional Amount		**Fair Values**			
			Assets		**Liabilities**	
2016:						
Currency swaps and forwards	P	27,155	P	1,023	P	288
Interest rate swaps and futures		22,346		106		92
Debt warrants		6,224		31		-
Options		3,604		15		5
Credit default swap		99		3		-
	P	**59,428**	**P**	**1,178**	**P**	**385**
2015:						
Currency swaps and forwards	P	33,269	P	392	P	179
Interest rate swaps and futures		19,111		66		84
Debt warrants		5,891		57		-
Options		4,653		8		2
Credit linked notes		-		979		-
Principal-protected notes		-		236		-
	P	62,924	P	1,738	P	265

Derivative liabilities amounting to P385 and P265 as of December 31, 2016 and 2015, respectively, are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The bulk of such derivative liabilities have maturity periods of less than a year.

In 2008, the Parent Company reclassified its CLNs that are linked to Republic of the Philippines bonds and certain collateralized debt obligation (CDOs), with an aggregate carrying value of P5,691 from AFS Securities to Loans and Receivables. On January 1, 2014, the Parent Company reclassified its CLNs with an aggregate value of P2,665 from Loans and Receivables to Financial Assets at FVPL as a result of the initial application of PFRS 9. As of December 31, 2016 and 2015, the carrying value of the remaining CLNs amounted to nil and P979, respectively.

The Group recognized the fair value changes in financial assets at FVPL resulting in an increase of P104 in 2016, P107 in 2015 and increase of P614 in 2014 in the Group's financial statements; and increase of P152 in 2016, P127 in 2015 and P455 in 2014 in the Parent Company's financial statements, which were included as part of Trading and Securities Gains account in the statements of profit or loss.

Other information about the fair value measurement of the Group's financial assets at FVPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31, 2016 and 2015 consist of:

	Group		Parent	
2016:				
Quoted equity securities	P	3,920	P	2,015
Unquoted equity securities		1,759		1,720
	P	**5,679**	**P**	**3,735**
2015:				
Quoted equity securities	P	2,043	P	-
Unquoted equity securities		2,165		2,341
	P	4,208	P	2,341

The Group has designated the above equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVPL. Unquoted equity securities pertain to golf club shares and investments in non-marketable equity securities.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2016 and 2015 are unquoted equity securities with fair value determined using the net asset value or a market-based approach (price-to-book value method); hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

The fair value changes in FVOCI amounted to an increase of P1,442 in 2016, a decrease of P143 in 2015, and an increase of P118 in 2014, in the Group's financial statements, and, an increase of P1,395 in 2016, a decrease of P220 in 2015 and an increase of P56 in 2014, in the Parent Company's financial statements, which are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently to profit or loss. In addition, as a result of RCBC Capital's disposal of certain financial asset at FVOCI, the related fair value gain of P3 in 2016 and 2015 and fair value loss of P28 in 2014 previously recognized in other comprehensive income was transferred from Revaluation Reserves to Surplus account during those years.

In 2016, 2015 and 2014, dividends on these equity securities were recognized amounting to P449, P237 and P285 by the Group and, P307, P87 and P107 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2016 and 2015 consist of:

	Group		Parent	
2016:				
Government securities	P	25,990	P	21,866
Corporate debt securities		25,874		22,976
	P	**51,864**	**P**	**44,842**
2015:				
Government securities	P	56,093	P	48,441
Corporate debt securities		45,788		43,015
	P	101,881	P	91,456

The breakdown of these investment securities by currency is shown below.

	Group		Parent	
2016:				
Philippine peso	P	11,322	P	4,300
Foreign currencies		40,542		40,542
	P	**51,864**	**P**	**44,842**
2015:				
Philippine peso	P	13,747	P	8,477
Foreign currencies		88,134		82,979
	P	101,881	P	91,456

Interest rates per annum on government securities and corporate debt securities range from 2.13% to 8.44% in 2016 and 1.63% to 8.44% in 2015 for peso denominated securities and 1.40% to 10.63% in 2016 and 1.40% to 10.63% in 2015 for foreign currency denominated securities, respectively.

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

As of December 31, 2016 and 2015, investment securities of both the Group and the Parent Company with an aggregate amortized cost of P185 and P547, respectively, were pledged as collaterals for bills payable under repurchase agreements (see Note 18).

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1):

	Group				Parent Company			
		2016		2015		**2016**		2015
Receivables from customers:								
Loans and discounts	**P**	**281,025**	P	272,344	**P**	**205,390**	P	206,965
Credit card receivables		**12,760**		10,987		**12,760**		10,987
Customers' liabilities on acceptances, import bills and trust receipts		**7,675**		9,950		**7,675**		9,950
Bills purchased		**2,128**		2,420		**2,125**		2,408
Lease contract receivables		**2,085**		1,409		**-**		-
Receivables financed		**229**		132		**-**		-
		305,902		297,242		**227,950**		230,310
Unearned discount	**(**	**243)**	(	351)	**(**	**226)**	(	240)
		305,659		296,891		**227,724**		230,070

	Group 2016	Group 2015	Parent Company 2016	Parent Company 2015
Other receivables:				
Accrued interest receivables	**2,784**	3,217	**2,075**	2,508
Sales contract receivables	**1,770**	2,058	**564**	675
Accounts receivables [see Note 28.5 (a) and (b)]	**1,594**	2,660	**1,150**	2,070
Unquoted debt securities classified as loans	**1,256**	1,270	**1,196**	1,210
Accrued rental receivables	**-**	63	**-**	-
Interbank loans receivables	**515**	-	**515**	-
	7,919	9,268	**5,500**	6,463
	313,578	306,159	**233,224**	236,533
Allowance for impairment (see Note 16)	**(7,411)**	(7,040)	**(4,792)**	(4,825)
	P 306,167	P 299,119	**P 228,432**	P 231,708

Receivables from customer's portfolio earn average annual interest or range of interest as follows:

	2016	2015	2014
Loans and discounts:			
Philippine peso	**5.15%**	5.05%	5.04%
Foreign currencies	**3.15%**	2.95%	2.80%
Credit card receivables	**26.12% - 30.40%**	23.88% - 42.00%	24.24% - 58.00%
Lease contract receivables	**8.00% - 20.00%**	8.00% - 26.88%	8.00% - 21.00%
Receivable financed	**10.00% - 12.00%**	10.00% - 25.00%	10.00% - 25.00%

Included in unquoted debt securities classified as loans and receivable as of December 31, 2016 and 2015 is a 10-year note from Philippine Asset Growth One, Inc. (PAGO) with a face amount of P731 which is part of the consideration received in relation to the Parent Company's disposal in February 2013 of its non-performing assets (NPAs), consisting of non-performing loans (NPLs) with a carrying amount of P507 and non-performing investment properties with a carrying amount of P1,236 (see Note 14.1). This note receivable carries a variable interest rate of 1.0% per annum during the first five years, 7.0% per annum in the sixth to seventh year, and 7.5% per annum in the last three years. This note receivable was initially recognized in 2013 at fair value resulting in the recognition of day-one loss of P181 which is included as part of allowance for impairment.

Accounts receivables include claim from the Bureau of Internal Revenue (BIR) relating to the 20% final withholding tax on Poverty Eradication and Alleviation Certificates (PEACe) bonds amounting to P199. On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. Subsequently, on March 16, 2015, the Parent Company filed a Motion for Clarification and/or Partial Reconsideration (the Motion) and reiterated its arguments with the Supreme Court. On October 5, 2016, the Supreme Court partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCBC Capital which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. In November 2016, the Supreme Court denied the Motion filed by the OSG (see Note 29.2). Accordingly, in 2016, the Parent Company reversed the related allowance for impairment.

Also included in Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2016, the outstanding balance amounted to P202. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 28).

11.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Real estate, renting and other related activities	**P 70,532**	P 76,052	**P 42,853**	P 42,374
Electricity, gas and water	**52,062**	51,148	**51,480**	50,814
Other community, social and personal activities	**19,231**	24,737	**14,910**	24,413
Manufacturing (various industries)	**41,689**	39,497	**41,067**	39,469
Consumer	**44,174**	37,855	**13,003**	13,211
Wholesale and retail trade	**26,279**	23,993	**23,522**	22,773
Transportation and communication	**18,270**	18,425	**14,509**	18,364
Diversified holding companies	**11,910**	2,058	**11,910**	2,058
Agriculture, fishing and forestry	**4,090**	3,796	**3,770**	3,715
Financial intermediaries	**6,873**	7,822	**5,363**	7,779
Hotels and restaurants	**3,260**	3,018	**3,260**	3,018
Mining and quarrying	**1,984**	1,934	**1,901**	1,934
Others	**5,305**	6,556	**176**	148
	P 305,659	P 296,891	**P 227,724**	P 230,070

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group and the Parent Company are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Secured:				
Real estate mortgage	**P 78,707**	P 79,505	**P 41,034**	P 41,914
Chattel mortgage	**31,831**	23,259	**454**	206
Hold-out deposit	**16,379**	17,634	**15,925**	16,202
Other securities	**29,294**	35,212	**29,294**	33,216
	156,211	155,610	**86,707**	91,538
Unsecured	**149,448**	141,281	**141,017**	138,532
	P 305,659	P 296,891	**P 227,724**	P 230,070

The maturity profile of the receivables from customers' portfolio follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Due within one year	**P 78,613**	P 69,727	**P 53,333**	P 45,663
Due beyond one year	**227,046**	227,164	**174,391**	184,407
	P 305,659	P 296,891	**P 227,724**	P 230,070

11.2 Non-performing Loans and Impairment

Non-performing loans included in the total loan portfolio of the Group and the Parent Company as of December 31, 2016 and 2015 are presented below, net of allowance for impairment in compliance with the BSP Circular 772.

	Group		Parent Company	
	2016	2015	**2016**	2015
Gross NPLs	**P 6,350**	P 5,427	**P 1,913**	P 2,200
Allowance for impairment	**(3,285)**	(3,122)	**(1,523)**	(1,600)
	P 3,065	P 2,305	**P 391**	P 600

Based on BSP regulations, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan receivable shall be considered as non-performing when the total amount of arrearages reaches 10% of the total loan receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of 2016 and 2015 is shown below (see Note 16).

	Group		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 7,040**	P 6,457	**P 4,825**	P 4,605
Impairment losses during the year – net	**1,736**	2,067	**841**	1,137
Accounts written off and others – net	**(1,365)**	(1,484)	**(874)**	(917)
Balance at end of year	**P 7,411**	P 7,040	**P 4,792**	P 4,825

12. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

	Note	Group	
		2016	2015
Acquisition costs of associates:			
HCPI		**P 91**	P 91
LIPC		**57**	57
YCS		**4**	4
		152	152
Accumulated equity in net earnings:			
Balance at beginning of year		**211**	193
Share in net earnings for the year		**131**	93
Share in actuarial gains on defined benefit plan	23.6	**-**	1
Cash dividends		**(111)**	(76)
Balance at end of year		**231**	211
Carrying amount		**P 383**	P 363

	Parent Company	
	2016	2015 (As Restated - see Note 2)
Acquisition costs of subsidiaries:		
RSB	**P 3,190**	P 3,190
RCBC Capital	**2,231**	2,231
Rizal Microbank	**1,242**	1,242
RCBC LFC	**1,187**	687
RCBC JPL	**375**	375
RCBC Forex	**150**	150
RCBC North America	**134**	134
RCBC Telemoney	**72**	72
RCBC IFL	**58**	58
	8,639	8,139

	Note	Parent Company 2016	2015 (As Restated - see Note 2)
Accumulated equity in net earnings:			
Balance at beginning of year		**6,482**	5,645
Share in net earnings for the year		**1,364**	1,400
Share in actuarial gains (losses) on defined benefit plan	23.6	**24**	(58)
Share in fair value gains on financial assets at FVOCI	23.6	**47**	77
Share in translation adjustments on foreign operations	23.6	**25**	(10)
Others		**40**	-
Cash dividends		**(165)**	(572)
Balance at end of year		**7,817**	6,482
Carrying amount		**P 16,456**	P 14,621
Acquisition costs of associates:			
NPHI		**388**	388
HCPI		**91**	91
LIPC		**57**	57
YCS		**4**	4
		540	540
Accumulated equity in net earnings:			
Balance at beginning of year		**223**	193
Share in net earnings for the year		**136**	135
Share in actuarial gains on defined benefit plan	23.6	**-**	1
Cash dividends		**(177)**	(106)
Balance at end of year		**182**	223
Advances – RCBC LFC		**-**	500
Carrying amount		**P 17,178**	P 15,884

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company received dividends from its subsidiaries and associates amounting to P191 and P111, respectively, in 2016, P602 and P76, respectively, in 2015, and P1,568 and P6, respectively, in 2014.

12.1 Changes in Investments in Subsidiaries

On May 25, 2015, the Parent Company's BOD approved the equity infusion into Rizal Microbank of P250 by purchasing additional 2,500,000 common shares of stock with par value of P100 each. The additional capital infusion into Rizal Microbank was approved by the BSP on September 30, 2015.

On February 23, 2015, the Parent Company's BOD approved the subscription to P500 worth of shares of stock of RCBC LFC. As of December 31, 2015, RCBC LFC is yet to file with the SEC the application for increase in its authorized capital stock since the certificate of authority to amend the articles of incorporation was only secured from the BSP on January 20, 2016. In 2016, RCBC LFC has already filed the said application with the SEC, pending approval as of December 31, 2016. Accordingly, as of December 31, 2016, the subscription to P500 worth of share of stock of RCBC LFC was reclassified to the related investment account.

12.2 Information About Investments in Associates

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite having only 12.88% ownership interest.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31:

	Resources	Liabilities	Revenues	Profit
2016:				
HCPI	**P 5,921**	**P 3,090**	**P 16,231**	**P 718**
2015:				
HCPI	P 4,914	P 2,097	P 14,276	P 705

13. 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 2016 and 2015 are shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2016					
Cost	P 1,289	P 3,315	P 9,858	P 1,125	P 15,587
Accumulated depreciation and amortization	-	(1,226)	(5,460)	(25)	(6,711)
Net carrying amount	**P 1,289**	**P 2,089**	**P 4,398**	**P 1,100**	**P 8,876**
December 31, 2015					
Cost	P 1,297	P 3,239	P 7,946	P 1,015	P 12,638
Accumulated depreciation and amortization	-	(1,131)	(4,764)	-	(5,606)
Net carrying amount	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602
January 1, 2015					
Cost	P 1,297	P 3,070	P 7,291	P 979	P 12,637
Accumulated depreciation and amortization	-	(1,032)	(4,574)	-	(5,606)
Net carrying amount	P 1,297	P 2,038	P 2,717	P 979	P 7,031

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2016					
Cost	P 777	P 2,381	P 5,882	P 816	P 9,855
Accumulated depreciation and amortization	-	(933)	(3,731)	-	(4,664)
Net carrying amount	**P 777**	**P 1,449**	**P 2,151**	**P 816**	**P 5,192**
December 31, 2015					
Cost	P 786	P 2,308	P 5,378	P 748	P 9,220
Accumulated depreciation and amortization	-	(865)	(3,380)	-	(4,245)
Net carrying amount	P 786	P 1,443	P 1,998	P 748	P 4,975
January 1, 2015					
Cost	P 779	P 2,172	P 4,766	P 695	P 8,412
Accumulated depreciation and amortization	-	(798)	(3,127)	-	(3,925)
Net carrying amount	P 779	P 1,374	P 1,639	P 695	P 4,487

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2016 and 2015 is shown below.

	Group				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602
Additions	-	84	2,302	396	2,782
Reclassification from Investment Properties (see Note 14)	10	36	-	-	46
Disposals	(18)	(44)	(192)	(39)	(293)
Depreciation and amortization charges for the year	-	(95)	(894)	(272)	(1,261)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 1,289**	**P 2,089**	**P 4,398**	**P 1,100**	**P 8,876**

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 1,297	P 2,038	P 2,717	P 979	P 7,031
Additions	4	143	1,515	299	1,961
Reclassification from Investment Properties (see Note 14)	12	71	-	-	83
Disposals	(16)	(9)	(220)	(26)	(271)
Depreciation and amortization charges for the year	-	(135)	(830)	(237)	(1,202)
Balance at December 31, 2015, net of accumulated depreciation and amortization	P 1,297	P 2,108	P 3,182	P 1,015	P 7,602

	Parent Company				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 786	P 1,443	P 1,998	P 748	P 4,974
Additions	-	75	780	274	1,129
Reclassification from Investment Properties (see Note 14)	-	-	-	-	-
Disposals	(9)	(2)	(146)	(36)	(193)
Depreciation and amortization charges for the year	-	(68)	(481)	(170)	(719)

	Parent Company				
	Land	**Buildings**	**Furniture, Fixtures and Equipment**	**Leasehold Rights and Improvements**	**Total**
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 777**	**P 1,449**	**P 2,151**	**P 816**	**P 5,192**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 779	P 1,374	P 1,639	P 695	P 4,487
Additions	1	124	1,075	211	1,411
Reclassification from Investment Properties (see Note 14)	12	71	-	-	83
Disposals	(6)	(8)	(171)	-	(185)
Depreciation and amortization charges for the year	-	(118)	(545)	(158)	(821)
Balance at December 31, 2015, net of accumulated depreciation and amortization	**P 786**	**P 1,443**	**P 1,998**	**P 748**	**P 4,975**

In 2014, a portion of the RSB Corporate Center, a building owned by the Parent Company, including the land where it is located with gross amounts of P1,985 and P419, respectively, in the Parent Company's financial statements was reclassified to Investment Properties account following the commencement of operating leases for the significant portion of the property during that year, including leases to RSB. In the financial statements of the Group, a portion of the property being leased out with gross amount of P1,524 was reclassified as part of the Investment Properties account in the 2014 statement of financial position (see Note 14). In 2015, due to the change in use of some portions of the RSB Corporate Center, building and land amounting to P71 and 12, respectively, were reclassified back from Investment Properties in the Group's and Parent Company's financial statements.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2016 and 2015, the Parent Company and its bank subsidiaries have satisfactorily complied with this BSP requirement.

The cost of the Group's and the Parent Company's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P4,174 and P3,637, respectively, as of December 31, 2016 and P3,825 and P3,342, respectively, as of December 31, 2015.

14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2016 and 2015 are shown below.

	Group			Parent Company		
	Land	**Buildings**	**Total**	**Land**	**Buildings**	**Total**
December 31, 2016						
Cost	P 1,389	P 2,492	P 3,881	P 1,000	P 2,019	P 3,019
Accumulated depreciation	-	(618)	(618)	-	(203)	(203)
Accumulated impairment (see Note 16)	(34)	-	(34)	-	-	-
Net carrying amount	**P 1,355**	**P 1,874**	**P 3,229**	**P 1,000**	**P 1,816**	**P 2,816**

	Group			Parent Company		
	Land	**Buildings**	**Total**	**Land**	**Buildings**	**Total**
December 31, 2015						
Cost	P 1,853	P 1,901	P 3,754	P 1,006	P 2,008	P 3,014
Accumulated depreciation	-	(314)	(314)	-	(131)	(131)
Accumulated impair ment (see Note 16)	(70)	-	(70)	-	-	-
Net carrying amount	P 1,783	P 1,587	P 3,370	P 1,006	P 1,877	P 2,883
January 1, 2015						
Cost	P 3,418	P 2,880	P 6,298	P 1,620	P 2,034	P 3,654
Accumulated depreciation	-	(615)	(615)	-	(82)	(82)
Accumulated impairment (see Note 16)	(319)	(9)	(328)	(146)	-	(146)
Net carrying amount	P 3,099	P 2,256	P 5,355	P 1,474	P 1,952	P 3,426

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2016 and 2015 follow:

		Group		Parent Company	
	Notes	**2016**	2015	**2016**	2015
Balance at January 1, net of accumulated depreciation and impairment		**P 3,370**	P 5,355	**P 2,883**	P 3,426
Additions		**559**	1,631	**46**	13
Reclassification from (to) Bank Premises	13	**(46)**	(83)	**-**	(83)
Reclassification to Assets Held-for-Sale and Disposal Group	15.1	**-**	(1,688)	**-**	(337)
Disposals/transfers		**(384)**	(1,445)	**(71)**	(84)
Impairment losses		**(34)**	(225)	**-**	-
Depreciation charges for the year		**(236)**	(175)	**(42)**	(52)
Balance at December 31, net of accumulated depreciation and impairment		**P 3,229**	P 3,370	**P 2,816**	P 2,883

As of December 31, 2016 and 2015, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling to P559 and P46, respectively, in 2016 and P1,631 and P13, respectively, in 2015 in settlement of certain loan accounts.

In September 2014, the Parent Company sold to a third party buyer a certain non-performing investment properties consisting of land and building with a total carrying amount of P774 for a total consideration of P740, consisting of P35 cash as down payment, P40 accounts receivable and P665 sales contract receivable with no interest and payable in staggered amount for a period of four years. This disposal resulted in a loss of P34 recognized as part of Others under the Miscellaneous Expenses account in the 2014 statement of profit or loss (see Note 25.2). The sales contract receivable was initially recognized at its fair value resulting in the recognition of a day-one loss amounting to P5 which is included as part of allowance for impairment.

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P120 and P139, respectively, in 2016, P281 and P162, respectively, in 2015, and P333 and P18, respectively, in 2014, which is presented as Gain on assets sold under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P400 and P399, respectively, in 2016, P310 and P330, respectively, in 2015, and P237 and P192, respectively, in 2014 [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P25 and P18, respectively, in 2016, P17 and P15, respectively, in 2015, and P23 and P21, respectively, in 2014.

14.3 Valuation and Measurement of Investment Properties

In 2015, certain investment properties of the Group were written down to their carrying amount of P362 based on management's latest evaluation of recoverable amount computed based on fair value less costs of disposal. The recoverable amount of these properties were computed based on the latest available appraisal reports adjusted for the costs of disposal of 4% of the appraised amounts and/or estimated selling price.

The fair value of investment properties as of December 31, 2016 and 2015, based on the available appraisal reports, amounted to P9,658 and P7,994, respectively, for the Group; and, P5,799 and P5,702, respectively, for the Parent Company (see Note 7.4).

15. OTHER RESOURCES

Other resources consist of the following:

		Group		Parent Company	
	Notes	**2016**	2015	**2016**	2015 (As Restated - see Note 2.2)
Assets held-for-sale and disposal group	15.1	**P 3,888**	P 3,263	**P 1,515**	P 1,426
Creditable withholding taxes		**1,569**	1,219	**1,532**	1,191
Branch licenses	15.5	**1,005**	1,022	**1,005**	1,022
Software – net	15.2	**960**	936	**850**	786
Goodwill	15.3	**426**	426	**-**	-
Prepaid expenses		**457**	302	**295**	217
Refundable deposits		**304**	271	**198**	169
Inter-office float items		**112**	224	**123**	263
Sundry debits		**6**	176	**-**	148
Returned checks and other cash items		**220**	164	**203**	155
Unused stationery and supplies		**202**	158	**154**	109
Foreign currency notes		**52**	147	**45**	113
Margin deposits	15.4	**20**	42	**20**	42
Miscellaneous		**928**	686	**377**	147
		10,149	9,036	**6,317**	5,788
Allowance for impairment	15.3, 16	**(288)**	(240)	**(1)**	(8)
		P 9,861	P 8,796	**P 6,316**	P 5,780

15.1 Assets Held-for-Sale and Disposal Group

Assets held-for-sale represents real and other properties that are approved by management to be immediately sold. These mainly include real properties, automobiles and equipment foreclosed by the Parent Company, RSB and RCBC LFC in settlement of loans.

In 2015, RSB classified portion of its Investment properties amounting to P1,351 as assets held-for-sale (see Note 14) since the carrying amount of this properties will be recovered principally through a sale transaction. The properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification. In January 2017, the sale of such properties to a third party materialized, which resulted in a gain from sale amounting to P11.0 million.

In 2013, the Parent Company entered into a joint venture agreement to develop certain investment properties (see Note 14) for the purpose of recovering the cost through the eventual sale. Management reclassified these properties amounting to P337 as assets held-for-sale. This type of joint arrangement is accounted for as a jointly controlled operation. There was no separate entity created under this joint venture agreement. The joint venture agreement stipulates that the Parent Company shall contribute parcels of land and the co-venturer shall be responsible for the planning, conceptualization, design, construction, financing and marketing of units to be constructed on the properties. The Parent Company does not have outstanding commitments over the joint venture agreement as of December 31, 2016 and 2015.

In 2009, in accordance with the letter received by RSB from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements. The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013:

(a) Goldpath
(b) Eight Hills
(c) Crescent Park
(d) Niceview
(e) Lifeway
(f) Gold Place
(g) Princeway
(h) Greatwings
(i) Top Place
(j) Crestview
(k) Best Value

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares were approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.4).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. As the Group is in the process of liquidating the operations of those SPCs, which is expected to be completed within 2017, the carrying amounts of the real properties of those SPCs subject for liquidation are accounted for under PFRS 5; hence, classified as assets held-for-sale.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2016 and 2015 is shown below.

	Group		**Parent Company**	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 936**	P 822	**P 786**	P 664
Additions	**294**	348	**270**	243
Amortization	**(269)**	(234)	**(206)**	(121)
Balance at end of year	**P 960**	P 936	**P 850**	P 786

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Goodwill

The goodwill recognized by the Group as of December 31, 2016 and 2015 pertains to the following:

		2016		2015
RSB	**P**	**268**	P	268
Rizal Microbank		**158**		158
		426		426
Allowance for impairment	**(**	**158)**	(	158)
	P	**268**	P	268

RSB recognized goodwill arising from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of RSB.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2016 and 2015, RSB engaged a third party consultant to perform an independent impairment testing of goodwill.

On the basis of the report of the third party consultant dated January 30, 2017 and January 15, 2016 with valuation date as of the end of 2016 and 2015, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank was fully provided with impairment in 2011.

15.4 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.5 Branch Licenses

Branch licenses represent the rights given to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country. This account also includes the excess of the total cost of investment over the allocated net assets acquired by the Parent Company from RCBC JPL.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized as follows:

		Group				**Parent Company**			
	Notes		**2016**		2015		**2016**		2015
Balance at beginning of year									
Loans and receivables	11	**P**	**7,040**	P	6,457	**P**	**4,825**	P	4,605
Investment properties	14		**70**		328		**-**		146
Other resources	15		**240**		209		**8**		21
			7,350		6,994		**4,833**		4,772
Impairment losses during the year			**1,770**		2,350		**856**		1,150
Charge-offs and other adjustments during the year		**(**	**1,387)**	(	1,994)	**(**	**1,327)**	(	1,089)
		P	**383**	P	356	**(P**	**471)**	P	61

		Group				**Parent Company**			
	Notes		**2016**		2015		**2016**		2015
Balance at end of year									
Loans and receivables	11	**P**	**7,411**	P	7,040	**P**	**4,792**	P	4,825
Investment properties	14		**34**		70		**-**		-
Other resources	15		**288**		240		**1**		8
		P	**7,733**	P	7,350	**P**	**4,793**	P	4,833

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group		Parent Company	
	2016	2015	**2016**	2015
Demand	**P 42,053**	P 44,311	**P 33,027**	P 34,963
Savings	**162,926**	178,197	**140,921**	153,369
Time	**148,098**	119,854	**86,217**	75,738
	P 353,077	P 342,362	**P 260,165**	P 264,070

Included in the time deposits are the Parent Company's Long-term Negotiable Certificate of Deposits (LTNCDs) as of December 31, 2016 and 2015 as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2016	Outstanding Balance 2015
December 19, 2014	June 19, 2020	4.13%	**P 2,100**	P 2,100
November 14, 2013	May 14, 2019	3.25%	**2,860**	2,860
November 14, 2013	May 14, 2019	0.00%	**1,970**	1,903
May 7, 2012	November 7, 2017	5.25%	**1,150**	1,150
December 29, 2011	June 29, 2017	5.25%	**2,033**	2,033
December 29, 2011	June 29, 2017	0.00%	**1,768**	1,674
			P 11,881	P 11,720

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

The maturity profile of the deposit liabilities follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Within one year	**P 66,733**	P 68,132	**P 50,604**	P 45,096
Beyond one year but within five years	**10,523**	19,202	**9,786**	18,802
Non-maturing	**275,821**	255,028	**199,775**	200,172
	P 353,077	P 342,362	**P 260,165**	P 264,070

Deposit liabilities, aside from LTNCDs, bear annual interest rates ranging from 0.13% to 1.38% in 2016, 0.15% to 1.00% in 2015, and 0.25% to 0.88% in 2014. Deposit liabilities are stated at amounts they are to be paid which approximate the market value.

Under existing BSP regulations, non-FCDU deposit liabilities, including long-term tax exempt Negotiable Certificate of Time Deposits, of the Parent Company is subject to reserve requirement equivalent to 20% in 2016 and 2015, while RSB and Rizal Microbank are subject to reserve requirement equivalent to 8% in 2016 and 2015. Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent to 6% in 2016 and 2015. As of December 31, 2016 and 2015, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 753, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P54,069 and P46,112 for the Group and P38,071 and P39,026 for the Parent Company as of December 31, 2016 and 2015, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2016	2015	**2016**	2015
Foreign banks	**P 26,985**	**P** 33,965	**P 26,985**	P 33,965
Local banks	**10,548**	15,392	**4,723**	11,847
Others	**110**	47	**4**	4
	P 37,643	P 49,404	**P 31,712**	P 45,816

The maturity profile of bills payable follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Within one year	**P 15,180**	P 21,296	**P 10,748**	P 18,228
Beyond one year but within five years	**20,969**	17,339	**19,470**	16,819
More than five years	**1,494**	10,769	**1,494**	10,769
	P 37,643	P 49,404	**P 31,712**	P 45,816

Borrowings from foreign and local banks, which are mainly short-term in nature, are subject to annual fixed interest rates as follows:

	2016	2015	2014
Group			
Peso denominated	**0.88% - 2.98%**	0.02% - 2.00%	0.08% - 5.00%
Foreign currency denominated	**0.10% - 2.86%**	0.02% - 2.67%	0.08% - 3.13%
Parent Company			
Foreign currency denominated	**0.10% - 2.86%**	0.02% - 2.67%	0.08% - 3.13%

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2016	Outstanding Balance 2015
November 2, 2015	February 2, 2021	3.45%	$ 320	**P 15,869**	P 15,020
January 21, 2015	January 22, 2020	4.25%	243	**12,053**	11,398
January 30, 2012	January 31, 2017	5.25%	275	**13,673**	12,946
			$ 838	**P 41,595**	P 39,364

In November 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The Senior Notes, unless redeemed, will mature on February 2, 2021. As of December 31, 2016 and 2015, the peso equivalent of this outstanding bond issue amounted to P15,869 and P15,020, respectively.

In January 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$243 bearing an interest of 4.25% per annum, payable semi-annually in arrears every January 21 and July 21 of each year, which commenced on July 21, 2015. The Senior Notes, unless redeemed, will mature on January 22, 2020. As of December 31, 2016 and 2015, the peso equivalent of this outstanding bond issue amounted to P12,053 and P11,398, respectively.

In January 2012, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$275 bearing an interest of 5.25% per annum, payable semi-annually in arrears every January 18 and July 18 of each year, which commenced on July 18, 2012. As of December 31, 2016 and 2015, the peso equivalent of this outstanding bond issue amounted to P13,673 and P12,946, respectively. The Senior Notes matured on January 31, 2017.

In February 2010, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$250 bearing an interest of 6.25% per annum, payable semi-annually in arrears every February 9 and August 9 of each year, which commenced on August 9, 2010. The Senior Notes matured on February 9, 2015.

The interest expense incurred on these bonds payable amounted to P1,715 in 2016, P1,262 in 2015, and P1,333 in 2014. The Group recognized foreign currency exchange losses in relation to these bonds payable amounting to P516 in 2016, P24 in 2015, and P171, which are netted against Foreign exchange gains under Other Operating Income in the statements of profit or loss.

20. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7 billion Tier 2 Notes. The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10 billion, are as follows:

(a) The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

(c) The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

(d) Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

(e) The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

(i) it shall reduce the claim on the notes in liquidation;
(ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
(iii) partially or fully reduce the interest payments on the notes.

The total interest expense incurred by the Group on the notes amounted to P553 in 2016 and 2015.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group				Parent Company			
		2016		2015		**2016**		2015
Accrued expenses	**P**	**3,321**	P	3,112	**P**	**2,492**	P	2,342
Accrued interest		**1,263**		1,086		**1,023**		946
Taxes payable		**239**		255		**118**		116
	P	**4,823**	P	4,453	**P**	**3,633**	P	3,404

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable, bonds payable and subordinated debt at the end of each reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

		Group				Parent Company			
	Notes		**2016**		2015		**2016**		2015 (As Restated - see Note 2.2)
Accounts payable	28.5(a), 28.5(c)	**P**	**5,210**	P	6,124	**P**	**3,089**	P	3,951
Post-employment defined benefit obligation	24.2		**1,735**		1,274		**1,557**		1,139
Manager's checks			**1,108**		1,278		**586**		789
Outstanding acceptances payable			**822**		418		**822**		418
Bills purchased – contra			**721**		1,358		**718**		1,346
Derivative financial liabilities	10.1		**385**		265		**385**		265
Other credits			**342**		281		**232**		193
Deposit on lease contracts			**167**		161		**-**		-
Withholding taxes payable			**205**		166		**142**		110
Payment orders payable			**167**		117		**144**		104
Sundry credits			**82**		78		**80**		78
Guaranty deposits			**58**		156		**58**		156
Due to BSP			**33**		28		**30**		28
Miscellaneous			**935**		709		**845**		610
		P	**11,970**	P	12,413	**P**	**8,688**	P	9,187

Accounts payable is mainly composed of debit card balances of customers, settlement billing from credit card operations and Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include Pag-ibig, SSS and PhilHealth premiums, and other amounts due to local banks.

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock are as follows:

	Number of Shares		
	2016	2015	2014
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Balance at beginning of year	**310,145**	338,291	342,082
Conversion of shares during the year	**(16,158)**	(28,146)	(3,791)
Balance at end of year	**293,987**	310,145	338,291
Common stock – P10 par value			
Authorized – 1,400,000,000 shares			
Balance at beginning of year	**1,399,908,746**	1,275,659,728	1,275,658,638
Conversion of shares during the year	**3,718**	6,746	1,090
Issuances during the year	**-**	124,242,272	-
Balance at end of year	**1,399,912,464**	1,399,908,746	1,275,659,728

As of December 31, 2016 and 2015, there are 779 and 780 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P33.55 per share and P33.00 per share as of December 31, 2016 and 2015, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay Life Insurance Corp.	April 2015	124,242,272

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Purchase and Reissuance of Treasury Shares and Issuance of Common Shares

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

Also, on September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

In 2015, the Parent Company issued common shares to Cathay Life Insurance Corporation at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iv) entering into a shareholders agreement with PMMIC and the Parent Company.

23.3 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
October 29, 2013	0.0569	0.02	December 21, 2013	October 29, 2013	January 13, 2014	January 15, 2014
October 29, 2013	*	224.01	*	October 29, 2013	February 25, 2014	April 25, 2014
October 29, 2013	*	212.01	*	October 29, 2013	September 15, 2014	October 24, 2014
January 27, 2014	0.0562	0.02	March 21, 2014	January 27, 2014	February 25, 2014	March 27, 2014
March 31, 2014	1.0000	1,275.66	May 23, 2014	March 31, 2014	May 23, 2014	June 16, 2014
March 31, 2014	1.0000	0.34	May 23, 2014	March 31, 2014	May 23, 2014	June 16, 2014
April 28, 2014	0.0570	0.02	June 21, 2014	April 28, 2014	July 25, 2014	July 30, 2014
July 28, 2014	0.0536	0.02	September 30, 2014	July 28, 2014	September 15, 2014	October 10, 2014
October 27, 2014	0.0564	0.02	December 21, 2014	October 27, 2014	December 19, 2014	January 28, 2015
October 27, 2014	*	221.57	*	October 27, 2014	March 20, 2015	April 27, 2015
January 26, 2015	0.0564	0.02	March 21, 2015	January 26, 2015	March 20, 2015	March 27, 2015
March 30, 2015	0.6000	839.95	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
March 30, 2015	0.6000	0.19	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
April 27, 2015	0.0567	0.02	June 21, 2015	April 27, 2015	September 11, 2015	September 22, 2015
July 27, 2015	0.0583	0.02	September 21, 2015	July 27, 2015	September 11, 2015	September 24, 2015
November 4, 2015	0.0593	0.02	December 21, 2015	November 4, 2015	**	December 22, 2015
January 25, 2016	0.6495	0.02	March 21, 2016	January 25, 2016	**	March 23, 2016
April 25, 2016	0.0660	0.02	June 21, 2016	April 25, 2016	June 16, 2016	June 21, 2016
April 25, 2016	0.7200	1,007.94	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
April 25, 2016	0.7200	0.21	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
July 25, 2016	0.0676	0.02	September 21, 2016	July 25, 2016	September 16, 2016	October 11, 2016
November 2, 2016	0.0724	0.02	December 21, 2016	November 2, 2016	January 13, 2017	January 17, 2017

** Pertains to cash dividends on hybrid perpetual securities*
*** Not applicable, BSP approval not anymore required*

In 2015, the BSP, through the Monetary Board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P7,999 and P6,705 as of December 31, 2016 and 2015, respectively, is not currently available for distribution as dividends.

23.4 Other Reserves

On December 23, 2013, the SPCs' BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus (see Note 15.1).

As of December 31, 2016 and 2015, this account consists of reserves arising from the acquisition of RCBC LFC and Rizal Microbank for a total of P86 and P11, respectively.

23.5 Hybrid Perpetual Securities

On October 30, 2006, the Parent Company received the proceeds from the issuance of Non-Cumulative Step-Up Callable Perpetual Securities ("Perpetual Securities") amounting to US$98 million, net of fees and other charges. Net proceeds were used to strengthen the CAR of the Parent Company, repay certain indebtedness and enhance its financial stability and for general corporate purposes. The issuance of the Perpetual Securities was approved by the BOD on June 7, 2006.

The Perpetual Securities represent US$100 million, 9.875%, non-cumulative step-up callable perpetual securities issued pursuant to a trust deed dated October 27, 2006 between the Parent Company and Bank of New York – London Branch, each with a liquidation preference of US$1 thousand per US$1 thousand in principal amount of the Perpetual Securities. The actual listing and quotation of the Perpetual Securities in a minimum board lot size of US$1 hundred in the Singapore Exchange Securities Trading Limited ("SGX-ST") was done on November 1, 2006. The Perpetual Securities were issued pursuant to BSP Circular No. 503 dated December 22, 2005 allowing the issuance of perpetual, non-cumulative securities up to US$125 million which are eligible to qualify as Hybrid Tier 1 Capital.

The significant terms and conditions of the issuance of the Perpetual Securities, among others, follow:

(a) Interest (effectively dividends) will be paid from and including October 27, 2006 (the "issue date") to (but excluding) October 27, 2016 (the "First Optional Redemption Date") at a rate of 9.875% per annum payable semi-annually in arrears from April 27, 2007 and, thereafter at a rate reset and payable quarterly in arrears, of 7.02% per annum above the then prevailing LIBOR for three-month US dollar deposits;

(b) Except as described below, interest (dividends) will be payable on April 27 and October 27 in each year, commencing on April 27, 2007 and ending on the First Optional Redemption Date, and thereafter (subject to adjustment for days which are not business days) on January 27, April 27, July 27, October 27 in each year commencing on January 27, 2016;

(c) The Parent Company may, in its absolute discretion, elect not to make any interest (dividends) payment in whole or in part if the Parent Company has not paid or declared a dividend on its common stocks in the preceding financial year; or determines that no dividend is to be paid on such stocks in the current financial year. Actual payments of interest (dividends) on the hybrid perpetual securities are shown in Note 23.3;

(d) The rights and claims of the holders will be subordinated to the claims of all senior creditors (as defined in the conditions) and the holders of any priority preference stocks (as defined in the conditions), in that payments in respect of the securities are conditional upon the Parent Company being solvent at the time of payment and in that no payments shall be due except to the extent the Parent Company could make such payments and still be solvent immediately thereafter;

(e) The Perpetual Securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation and they may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates;

(f) The Parent Company undertakes that, if on any Interest Payment Date, payment of all Interest Payments scheduled to be made on such date is not made in full, it shall not declare or pay any distribution or dividend or make any other payment on, any junior share capital or any parity security, and it shall not redeem, repurchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities, other than in the case of any partial interest payment, pro rata payments on, or redemptions of, parity securities the dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity as aforesaid unless and until a payment is made to the holders in an amount equal to the unpaid amount (if any) of interest payments in respect of interest periods in the twelve months including and immediately preceding the date such interest payment was due and the BSP does not otherwise object; and,

(g) The Parent Company, at its option, may redeem the Perpetual Securities at the fixed or final redemption date although the Parent Company may, having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and the Holders, redeem all (but not some only) of the securities: (i) on the first optional redemption date; and (ii) on each interest payment date thereafter, at an amount equal to the liquidation preference plus accrued interest.

On March 30, 2015, the Parent Company's BOD approved the redemption of its hybrid perpetual securities at a premium amounting to P723 million.

23.6 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account are shown below.

	Group			
	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustment on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2016	P 689	P 61	(P 1,268)	(P 518)
Fair value gain on financial assets at FVOCI	1,442	-	-	1,442
Translation adjustments on foreign operation	-	25	-	25
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2016	**P 2,128**	**P 86**	**(P 1,593)**	**P 621**
Balance at January 1, 2015	P 835	P 71	(P 224)	P 682
Fair value losses on financial assets at FVOCI	(143)	-	-	(143)
Translation adjustments on foreign operation	-	(10)	-	(10)
Actuarial losses on defined benefit plan	-	-	(1,045)	(1,045)
Share in actuarial gains on defined benefit plan of associates	-	-	1	1
Other comprehensive loss	(143)	(10)	(1,044)	(1,197)
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2015	P 689	P 61	(P 1,268)	(P 518)
Balance at January 1, 2014	P 689	P 98	(P 225)	P 540
Fair value gains on financial assets at FVOCI	118		-	118
Translation adjustments on foreign operation	-	(5)	-	(5)
Actuarial gains on defined benefit plan	-	-	(35)	(35)
Share in actuarial losses on defined benefit plan of associates	-	-	(34)	(34)
Other comprehensive income (loss)	118	(5)	1	114
Transfer from fair value losses on financial asset at FVOCI to Surplus	28	-	-	28
Balance as of December 31, 2014	P 835	P 71	(P 224)	P 682

	Parent			
	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustment on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2016	P 581	P 61	(P 1,160)	(P 518)
Fair value gains on financial assets at FVOCI	1,442	-	-	1,442
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Translation adjustments on foreign operation	-	25	-	25
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(- 3)
Balance as of December 31, 2016	**P 2,020**	**P 86**	**(P 1,485)**	**P 621**
Balance at January 1, 2015	P 727	P 71	(P 116)	P 682
Fair value losses on financial assets at FVOCI	(143)	-	-	(143)
Actuarial losses on defined benefit plan	-	-	(1,044)	(1,044)
Translation adjustments on foreign operation	-	(10)	-	(10)
Other comprehensive loss	(143)	(10)	(1,044)	(1,197)
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2015	P 581	P 61	(P 1,160)	(P 518)
Balance at January 1, 2014	P 581	P 76	(P 117)	P 540
Fair value gains on financial assets at FVOCI	118	-	-	118
Actuarial gains on defined benefit plan	-	-	1	1
Translation adjustments on foreign operation	-	(5)	-	(5)
Other comprehensive income (loss)	118	(5)	1	114
Transfer from fair value losses on financial asset at FVOCI to Surplus	28	-	-	28
Balance as of December 31, 2014	P 727	P 71	(P 116)	P 682

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group					
		2016		2015		2014
Short-term employee benefits	**P**	**5,039**	P	4,370	P	3,731
Post-employment defined benefits		**369**		361		333
	P	**5,408**	P	4,731	P	4,064

	Parent Company					
		2016		2015		2014
Short-term employee benefits	**P**	**3,386**	P	2,924	P	2,494
Post-employment defined benefits		**280**		266		254
	P	**3,666**	P	3,190	P	2,748

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's and RSB's Trust Departments, covering all regular full-time employees. The Parent Company's and RSB's Trust Departments manage the fund in coordination with the Parent Company's Retirement Committee, Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to 1.25 to 2 months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2016 and 2015.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group				Parent Company			
		2016		2015		**2016**		2015
Present value of the obligation	**P**	**4,953**	P	4,859	**P**	**4,156**	P	4,037
Fair value of plan assets		**3,218**		3,585		**2,599**		2,898
Deficiency of plan assets	**P**	**1,735**	P	1,274	**P**	**1,557**	P	1,139

The Group's and Parent Company's post-employment defined benefit obligation as of December 31, 2016 and 2015 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 4,859**	P 4,525	**P 4,037**	P 3,813
Current service cost	**369**	361	**280**	266
Interest expense	**241**	227	**208**	181
Remeasurements – actuarial losses (gains) arising from changes in:				
Financial assumptions	**(73)**	(73)	**(63)**	(68)
Demographic assumptions	**(6)**	(22)	**-**	-
Experience adjustments	**2**	127	**18**	57
Benefits paid by the plan	**(439)**	(286)	**(324)**	(212)
Balance at end of year	**P 4,953**	P 4,859	**P 4,156**	P 4,037

The movements in the fair value of plan assets are presented below.

	Group		Parent Company	
	2016	2015	**2016**	2015
Balance at beginning of year	**P 3,585**	P 4,228	**P 2,898**	P 3,667
Interest income	**179**	278	**148**	176
Return on plan assets (excluding amounts included in net interest)	**(402)**	(1,013)	**(394)**	(998)
Contributions paid into the plan	**295**	378	**271**	265
Benefits paid by the plan	**(439)**	(286)	**(324)**	(212)
Balance at end of year	**P 3,218**	P 3,585	**P 2,599**	P 2,898

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	Group		Parent Company	
	2016	2015	**2016**	2015
Cash and cash equivalents	**P 226**	P 379	**P 72**	P 153
Debt securities:				
Government bonds	**114**	84	**4**	11
Corporate debt securities	**291**	269	**51**	51
Equity securities:				
Quoted equity securities				
Financial intermediaries	**1,900**	1,863	**1,900**	1,863
Transportation and communication	**194**	315	**192**	290
Electricity, gas and water	**119**	112	**115**	97
Diversified holding companies	**31**	19	**16**	19
Others	**58**	113	**1**	3
Unquoted long-term equity investments	**171**	330	**168**	330
UITF	**94**	17	**76**	74
Loans and receivables	**15**	77	**-**	1
Investment properties	**4**	1	**4**	6
Other investments	**1**	6	**-**	-
	P 3,218	P 3,585	**P 2,599**	P 2,898

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The returns on plan assets are as follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Interest income	**P 179**	P 278	**P 148**	P 176
Actuarial losses	**(402)**	(1,013)	**(394)**	(998)
Actual returns	**(P 223)**	(P 1,291)	**(P 246)**	(P 824)

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

	Group		
	2016	2015	2014
Reported in profit or loss:			
Current service cost	**P 369**	P 361	P 333
Net interest expense (income)	**62**	(51)	4
	P 431	P 310	P 337

	Group		
	2016	2015	2014
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 73**	P 73	P 5
Demographic assumptions	**6**	22	-
Experience adjustments	**(2)**	(127)	(6)
Effect of asset ceiling test	**-**	-	1
Return on plan assets (excluding amounts included in net interest)	**(402)**	(1,013)	35
	(P 325)	(P 1,045)	P 35

	Parent Company		
	2016	2015	2014
Reported in profit or loss:			
Current service costs	**P 280**	P 266	P 254
Net interest expense	**60**	5	4
	P 340	P 271	P 258
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 63**	P 68	P 32
Experience adjustments	**(18)**	(57)	4
Changes in effect of asset ceiling	**-**	-	2
Return on plan assets (excluding amounts included in net interest)	**(394)**	(998)	42
	(P 349)	(P 987)	P 80

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense (income) is presented as part of Interest Expense – Bills Payable and Other Borrowings (Interest Income – Others) in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2016	2015	2014
Group			
Discount rates	**5.00% - 5.60%**	5.05% - 5.15%	4.52% - 4.98%
Expected rate of salary increases	**3.00% - 11.00%**	5.00% - 10.00%	5.00% - 8.00%
Parent Company			
Discount rates	**5.53%**	5.15%	4.76%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back 6 years for 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 zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

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 plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described in the succeeding pages.

(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 of December 31, 2016 and 2015:

	Group		
	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2016:			
Discount rate	**+/- 1%**	**(P 166)**	**P 92**
Salary growth rate	**+/- 1%**	**186**	**(71)**
2015:			
Discount rate	+/- 1%	(P 311)	P 359
Salary growth rate	+/- 1%	322	(285)

	Parent Company		
	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2016:			
Discount rate	**+/- 1%**	**(P 153)**	**P 172**
Salary growth rate	**+/- 1%**	**147**	**(133)**
2015:			
Discount rate	+/- 1%	(P 161)	P 181
Salary growth rate	+/- 1%	152	(138)

The sensitivity analysis 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 sensitivity analysis, the present value of the defined benefit obligation at the end of each reporting period has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2016 and 2015 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P1,735 and P1,557 for the Group and Parent Company based on the latest funding actuarial valuations in 2016 and 2015.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		Parent Company	
	2016	2015	**2016**	2015
Less than one year	**P 139**	P 204	**P 75**	P 162
More than one year to five years	**1,068**	773	**888**	770
More than five years to ten years	**1,970**	1,698	**1,752**	1,598
	P 3,177	P 2,675	**P 2,715**	P 2,530

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.8 years to 22 years for the Group and 5.8 years for the Parent Company.

The Group and Parent Company expects to contribute P479 and P395, respectively, to the plan in 2017.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	Group		
		2016	2015 (As Restated - see Note 2.2)	2014 (As Restated - see Note 2.2)
Rentals	14.2	**P 614**	P 355	P 243
Dividend income	10.2	**449**	237	285
Recoveries from written-off assets		**161**	169	137
Gains on assets sold	14.1	**120**	281	333
Others		**286**	174	207
		P 1,630	P 1,216	P 1,205

	Notes	Parent Company		
		2016	2015 (As Restated - see Note 2)	2014 (As Restated - see Note 2)
Rentals	14.2, 28.5(a)	**P 407**	P 375	P 197
Dividend income	10.2, 12	**307**	87	107
Gains on assets sold	14.1	**139**	162	18
Others		**263**	215	245
		P 1,116	P 839	P 567

25.2 Miscellaneous Expenses

	Notes	Group 2016	2015	2014
Insurance		P 738	P 656	P 614
Credit card-related expenses		667	600	524
Communication and information services		450	443	463
Management and other professional fees		408	529	444
Litigation/assets acquired expenses		385	247	222
Advertising and publicity		276	289	269
Transportation and travel		206	295	404
Banking fees		194	190	176
Stationery and office supplies		132	129	127
Other outside services		126	112	104
Representation and entertainment		45	94	152
Donations and charitable contributions		38	61	55
Membership fees		21	19	18
Commissions		-	45	27
Others	14.1, 29.6	1,750	966	1,005
		P 5,470	P 4,675	P 4,604

	Notes	Parent Company 2016	2015	2014
Credit card related expenses		P 663	P 584	P 511
Service processing fees	28.5(c)	594	527	479
Insurance		501	511	484
Communication and information services		281	258	288
Management and other professional fees		217	175	220
Advertising and publicity		206	191	182
Litigation/assets acquired expense		181	81	73
Banking fees		144	141	133
Other outside services		113	100	92
Transportation and travel		93	159	238
Stationery and office supplies		86	81	85
Donations and charitable contributions		35	56	50
Membership fees		18	15	14
Representation and entertainment		13	41	72
Others	29.6	1,411	476	561
		P 4,556	P 3,396	P 3,482

The Group's other expenses are composed of freight, employee activities expenses, fines and penalties, and seasonal giveaways. The Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P52, P54 and P48 in 2016, 2015 and 2014, respectively (see Note 28.5).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST). In 2003, the Parent Company and its financial intermediary subsidiaries were subjected to VAT instead of GRT. However, effective January 1, 2004 as prescribed under RA No. 9238, the Parent Company and certain subsidiaries were again subjected to GRT instead of VAT.

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2016, 2015 and 2014, the Group opted to continue claiming itemized deductions.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2016	2015	2014
Current tax expense:			
Final tax	**P 156**	P 326	P 434
RCIT	**435**	459	382
Excess MCIT over RCIT	**190**	46	122
	781	831	938
Application of MCIT	**-**	-	1
	781	831	937
Deferred tax income relating to origination and reversal of temporary differences	**(955)**	(1,138)	(23)
	(P 174)	(P 307)	P 914

	Parent Company		
	2016	2015	2014
Current tax expense:			
Final tax	**P 173**	P 254	P 391
RCIT	**140**	161	77
Excess MCIT over RCIT	**190**	46	120
	503	461	588
Deferred tax income relating to origination and reversal of temporary differences	**(842)**	(443)	-
	(P 339)	P 18	P 588

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

	Group		
	2016	2015	2014
Tax on pretax profit at 30%	**P 1,109**	P 1,446	P 1,597
Adjustments for income subjected to lower income tax rates	**(180)**	(142)	(174)
Tax effects of:			
Recognition of previously unrecognized deferred tax asset	**(865)**	(992)	-
Non-taxable income	**(845)**	(539)	(967)
Utilization of NOLCO	**374**	(443)	-
Non-deductible expenses	**520**	356	202
Unrecognized temporary differences	**97**	129	456
FCDU income	**(388)**	(125)	(214)
Utilization of MCIT	**-**	-	(1)
Others	**4**	3	15
Tax expense (income)	**(P 174)**	(P 307)	P 914

	Parent Company		
	2016	2015	2014
Tax on pretax profit at 30%	**P 1,059**	P 1,544	P 1,500
Adjustments for income subjected to lower income tax rates	**(118)**	(108)	(118)
Tax effects of:			
Recognition of previously unrecognized deferred tax asset	**(797)**	(443)	-
Utilization of NOLCO	**374**	(443)	-
Non-deductible expenses	**420**	423	130
Non-taxable income	**(889)**	(548)	(796)
Unrecognized temporary differences	**-**	(282)	86
FCDU income	**(388)**	(125)	(214)
Tax expense	**(P 339)**	P 18	P 588

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2016 and 2015 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position		Statements of Profit or Loss	
	2016	2015	**2016**	2015
Allowance for impairment	**P 1,619**	P 752	**P 867**	P 695
Excess MCIT	**356**	-	**356**	-
Provision for credit card reward payments	**105**	-	**105**	-
Post-employment benefit obligation	**60**	21	**39**	-
Deferred rent – PAS 17	**17**	1	**16**	-
NOLCO	**-**	443	**(443)**	443
Others	**20**	5	**15**	-
Deferred tax assets	**P 2,177**	P 1,222		
Deferred tax income – net			**P 955**	P 1,138

In 2015, the Parent Company recognized deferred tax asset amounting to P443 on a portion of its unutilized NOLCO amounting to P1,476. The total unutilized NOLCO amounted to P1,823 as of December 31, 2015. In 2016, the Parent Company utilized a portion of the remaining NOLCO amounting to P1,246, while the balance of P577 expired. The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2016 and 2015 relate to the operations of the Parent Company as shown below.

	Statements of Financial Position		Statements of Profit or Loss	
	2016	2015	**2016**	2015
Allowance for impairment	**P 780**	P -	**P 780**	P -
Excess MCIT	**356**	-	**356**	-
Provision for credit card reward payments	**105**	-	**105**	-
Post-employment benefit obligation	**18**	-	**18**	-
Deferred rent – PAS 17	**17**	-	**17**	-
NOLCO	**-**	443	**(443)**	443
Others	**9**	-	**9**	
Deferred tax assets	**P 1,285**	P 443		
Deferred tax income – net			**P 842**	P 443

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2016	2015	**2016**	2015
Allowance for impairment	**P 2,169**	P 1,538	**P 629**	P 1,450
Excess MCIT	**6**	314	**-**	310
NOLCO	**77**	137	**-**	104
Post-employment benefit obligation	**18**	45	**-**	25
Advance rental	**2**	2	**-**	2
	P 2,272	P 2,036	**P 629**	P 1,891

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, particularly those relating to its foreign subsidiaries, were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The breakdown of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	**Amount**	**Utilized**	**Expired**	**Balance**	**Expiry Year**
2016	P 190	P -	P -	P 190	2019
2014	67	-	-	67	2017
2013	1,865	1,246	619	-	
	P 2,122	**P 1,246**	**P 619**	**P 257**	

The breakdown of the Parent Company's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred is shown below.

Inception Year	**Amount**	**Utilized**	**Expired**	**Balance**
2013	P 3,299	P 2,722	P 577	P -

As of December 31, 2016 and 2015, the Group has MCIT of P356 and P314, respectively, that can be applied against RCIT for the next three consecutive years after the MCIT was incurred.

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2016	P 194	P -	P -	P 194	2019
2015	46	-	-	46	2018
2014	122	-	-	122	2017
2013	147	(1)	(146)	-	
	P 509	**(P 1)**	**(P 146)**	**P 362**	

The breakdown of the Parent Company's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2016	P 190	P -	P -	P 190	2019
2015	46	-	-	46	2018
2014	120	-	-	120	2017
2013	144	-	(144)	-	
	P 451	**P -**	**(P 144)**	**P 356**	

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P84,804 and P86,963 as of December 31, 2016 and 2015, respectively. The Parent Company's total trust resources amounted to P61,260 and P65,841 as of December 31, 2016 and 2015, respectively (see Note 29.1).

In connection with the trust opera tions of the Parent Company and RSB, time deposit placements and government securities with a total face value of P953 (Group) and P704 (Parent Company); and P930 (Group) and P685 (Parent Company) as of December 31, 2016 and 2015, respectively, are deposited with the BSP in compliance with existing trust regulations. The time deposit placements and government securities are presented in the statements of financial position under Due from BSP (see Note 9) and Trading and Investment Securities (see Note 10), respectively.

In compliance with existing BSP regulations, 10% of the Parent Company's and RSB's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's and RSB's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the statements of changes in equity.

The Group and the Parent Company transferred from Surplus to Reserve for Trust Business P27 and P22, respectively, in 2016; P22 and P15, respectively, in 2015; and, P18 and P14, respectively, in 2014.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company (PMMIC), subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2016 and 2015 is presented below.

		Group			
		2016		2015	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Stockholders					
Loans and receivables	28.1	**(P 426)**	**P -**	(P 537)	P 426
Deposit liabilities	28.2	**(1,785)**	**1,231**	1,545	3,018
Issuance of shares of stock	23.2	**-**	**-**	7,729	-
Interest income from loans and receivables	28.1	**21**	**-**	29	-
Interest expense on deposits	28.2	**6**	**-**	5	-
Associates					
Deposit liabilities	28.2	**(53)**	**11**	(60)	65
Interest expense on deposits	28.2	**5**	**-**	3	-
Dividend	12	**124**	**-**	76	-
Related Parties Under Common Ownership					
Loans and receivables	28.1	**(541)**	**-**	(1,966)	541
Deposit liabilities	28.2	**(2,124)**	**156**	(596)	2,282
Interest income from loans and receivables	28.1	**19**	**-**	35	-
Interest expense on deposits	28.2	**15**	**-**	10	-
Occupancy and equipment-related expense	28.5(a)	**926**	**-**	829	9
Miscellaneous expenses – others	25.2	**52**	**-**	54	-
Key Management Personnel					
Loans and receivables	28.1	**(1)**	**1**	(3)	4
Deposit liabilities	28.2	**67**	**243**	(287)	176
Interest income from loans and receivables	28.1	**-**	**-**	-	-
Interest expense on deposits	28.2	**1**		3	-
Salaries and employee benefits	28.5(d)	**376**	**-**	356	-
Other Related Interests					
Loans and receivables	28.1	**2,855**	**4,541**	(249)	1,686
Deposit liabilities	28.2	**(361)**	**115**	78	601
Interest income from loans and receivables	28.1	**567**	**-**	103	-
Interest expense from deposits	28.2	**3**	**-**	2	-

Related Party Category	Notes	Parent Company 2016 Amount of Transaction	Parent Company 2016 Outstanding Balance	Parent Company 2015 Amount of Transaction	Parent Company 2015 Outstanding Balance
Stockholders					
Loans and receivables	28.1	**(P 426)**	**P -**	(P 537)	P 426
Deposit liabilities	28.2	**(1,785)**	**1,231**	1,545	3,018
Issuance of shares of stock	23.2	**-**	**-**	7,729	-
Interest income from loans and receivables	28.1	**21**	**-**	29	-
Interest expense on deposits	28.2	**6**	**-**	5	-
Subsidiaries					
Loans and receivables	28.1	**-**	**222**	142	222
Deposit liabilities	28.2	**533**	**2,598**	26	2,065
Interest income from Loans and receivables	28.1	**-**	**-**	3	-
Interest expense on deposits	28.2	**5**	**-**	6	-
Dividend	12	**1,406**	**-**	602	-
Rental income	28.5(a), 28.5(b)			175	6
Occupancy and equipment-related expense	28.5(a)	**186**	**-**	153	3
Service processing fees	28.5(c)	**460**	**29**	410	33
Sale of investments securities	28.3	**912**	**-**	1,287	-
Purchase of investments securities	28.3	**1,151**	**-**	751	-
Capital subscriptions	12.1	**-**	**-**	750	500
Assignment of receivables	11, 28.1	**(20)**	**202**	222	222
Associates					
Deposit liabilities	28.2	**(53)**	**11**	(60)	65
Interest expense on deposits	28.2	**5**	**-**	3	-
Dividend	12	**124**	**-**	76	-
Related Parties Under Common Ownership					
Loans and receivables	28.1	**(541)**	**-**	(1,966)	541
Deposit liabilities	28.2	**(2,124)**	**156**	(596)	2,282
Interest income from loans and receivables	28.1	**19**	**-**	35	-
Interest expense on deposits	28.2	**15**	**-**	10	-
Occupancy and equipment-related expense	28.5(b)	**926**	**-**	829	9
Miscellaneous expenses – others	25.2	**52**	**-**	54	-
Key Management Personnel					
Loans and receivables	28.1	**(1)**	**1**	(5)	2
Deposit liabilities	28.2	**67**	**243**	(287)	176
Interest income from loans and receivables	28.1	**-**	**-**	-	-
Interest expense on deposits	28.2	**1**		3	-
Salaries and employee benefits	28.5(d)	**271**	**-**	221	-
Other Related Interests					
Loans and receivables	28.1	**2,855**	**4,541**	63	1,686
Deposit liabilities	28.2	**(361)**	**115**	-	476
Interest income from loans and receivables	28.1	**567**	**-**	103	-
Interest expense from deposits	28.2	**3**	**-**	2	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2016 and 2015 are as follows:

	Group			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2016:				
Stockholders	P -	P 426	P 21	P -
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,332	4,476	567	4,541
	P 7,333	**P 5,445**	**P 607**	**P 4,542**
2015:				
Stockholders	P -	P 537	P 29	P 426
Related parties under common ownership	40	2,006	35	541
Key management personnel	2	5	-	4
Other related interests	400	649	103	1,686
	P 442	P 3,197	P 167	P 2,657

	Parent Company			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2016:				
Stockholders	P -	P 426	P 21	P -
Subsidiaries	1,276	1,276	-	202
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,332	4,476	567	4,541
	P 8,609	**P 6,721**	**P 607**	**P 4,764**
2015:				
Stockholders	P -	P 536	P 29	P 426
Subsidiaries	5,754	5,612	3	222
Related parties under common ownership	40	2,006	35	541
Key management personnel	-	5	-	2
Other related interests	400	337	103	1,686
	P 5,972	P 8,496	P 170	P 2,877

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under 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 Group and Parent Company and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group and Parent Company. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2016 and 2015, the Group and the Parent Company is in compliance with these regulatory requirements.

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

	Group		Parent Company	
	2016	2015	**2016**	2015
Total outstanding DOSRI loans	**P 587**	P 1,143	**P 553**	P 1,125
Unsecured DOSRI	**60**	62	**49**	62
Past due DOSRI	**-**	1	**-**	1
Non-accruing DOSRI	**-**	1	**-**	1
Percent of DOSRI loans to total loan portfolio	**0.23%**	0.44%	**0.24%**	0.49%
Percent of unsecured DOSRI loans to total DOSRI loans	**10.22%**	5.46%	**8.86%**	5.51%
Percent of past due DOSRI loans to total DOSRI	**0.05%**	0.08%	**0.04%**	0.08%
Percent of non-accruing DOSRI loans to total DOSRI loans	**0.05%**	0.08%	**0.04%**	0.08%

The Group and Parent Company did not recognize any impairment loss on these loans in 2016 and 2015.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2016 and 2015 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Associates	35,592	35,645	9	11
Related parties under common ownership	1,287,730	1,289,854	15	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,054,105	1,036,476	3	115
	P 2,418,310	**P 2,404,576**	**P 34**	**P 1,754**

	Group			
Related Party Category	Deposits	Withdrawals	Interest Expense	Outstanding Balance
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,586	54,508	3	601
	P 250,520	P 249,840	P 24	P 6,142

Related Party Category	Parent Company Deposits	Withdrawals	Interest Expense	Outstanding Balance
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Subsidiaries	974,281	973,748	5	2,598
Associates	35,592	35,645	9	11
Related parties under common ownership	1,287,730	1,289,854	15	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 3,374,601	**P 3,378,324**	**P 38**	**P 4,356**
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Subsidiaries	1,342,248	1,342,222	6	2,065
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,508	54,508	2	476
	P 1,592,690	P 1,592,062	P 29	P 8,082

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage into trading of investment securities. These transactions are priced similar to transactions with other counterparties.

28.4 Retirement Fund

The Parent Company's and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2016 and 2015 as follows:

Nature of Transactions	Group Net Amount of Transaction	Group Outstanding Balance	Parent Company Net Amount of Transaction	Parent Company Outstanding Balance
2016:				
Investment in common shares of Parent Company	**P -**	**P 1,863**	**P -**	**P 1,863**
Investment in corporate debt securities	**(5)**	**50**	**-**	**49**
Deposits with the Parent Company	**75**	**201**	**72**	**72**
Fair value gains	**31**	**-**	**31**	**-**
Interest income	**3**	**-**	**3**	**-**

Nature of Transactions	Group		Parent Company	
	Net Amount of Transaction	Outstanding Balance	Net Amount of Transaction	Outstanding Balance
2015:				
Investment in common shares of Parent Company	(P 853)	P 1,863	(P 853)	P 1,863
Investment in corporate debt securities	(5)	50	-	49
Deposits with the Parent Company	19	126	-	-
Fair value losses	(849)	-	(849)	-
Interest income	5	-	3	-

The carrying amount and the composition of the plan assets as of December 31, 2016 and 2015 are disclosed in Note 24.2. Investment in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.7(b)]. Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities in the 2016 and 2015 statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Bank related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2 and 15.1). The outstanding receivable on the lease contracts is presented as part of Accounts receivable under Loans and Receivables in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 and renewable as may be agreed by the parties. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

In December 2013, RBSC entered into a Special Purchase Agreement (the Purchase Agreement) with Bankard, Inc. to transfer Bankard, Inc's credit card servicing operations to RBSC. In accordance with the Purchase Agreement, the BOD of the Parent Company approved the assignment of the Service Agreement (the Agreement) previously with Bankard, Inc. to RBSC. Under the Agreement, RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable on the service agreement is presented as part of Account payable under Other Liabilities in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2016	2015	2014
Short-term employee benefits	**P 361**	P 338	P 313
Post-employment defined benefits	**15**	18	14
	P 376	P 356	P 327

	Parent Company		
	2016	2015	2014
Short-term employee benefits	**P 271**	P 221	P 193
Post-employment defined benefits	**-**	-	-
	P 271	P 221	P 193

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of December 31, 2016 and 2015:

	Group		Parent Company	
	2016	2015	**2016**	2015
Trust department accounts	**P 84,804**	P 86,963	**P 61,260**	P 65,841
Derivative liabilities	**27,256**	32,102	**27,256**	32,102
Derivative assets	**32,172**	30,822	**32,172**	30,822
Outstanding guarantees issued	**31,828**	29,210	**31,828**	29,210
Unused commercial letters of credit	**10,783**	12,574	**10,724**	12,508
Spot exchange sold	**5,455**	2,346	**5,452**	2,346
Spot exchange bought	**5,452**	2,343	**5,455**	2,343
Inward bills for collection	**540**	1,861	**540**	1,861
Late deposits/payments received	**2,169**	511	**2,048**	477
Outward bills for collection	**84**	84	**84**	84
Others	**17**	5	**17**	5

29.2 Poverty Eradication and Alleviation Certificates Bonds

In October 2011, the Parent Company filed a case before the Court of Tax Appeals questioning the 20% final withholding tax on PEACe Bonds by the BIR. The Parent Company subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury withheld P199 in October 2011 from the Parent Company on the interest on its PEACe bonds holdings. The amount was recognized and is presented as part of Accounts Receivables under the Loans and Receivables account in the statements of financial position (see Note 11.2).

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. On March 16, 2015, the Parent Company filed a Motion for Clarification and/or Partial Reconsideration, seeking the exclusion of the PEACe Bonds from the definition of "deposit substitutes" since there was only one lender at the primary market, and the subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax.

The Parent Company also sought partial reconsideration to the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCBC Capital/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed.

The Parent Company also reiterated its arguments that the tax imposed on the PEACe Bonds constitutes double taxation, that it violates the non-impairment clause of the Constitution, and is a breach of the obligations of the Bureau of Treasury when it issued the PEACe Bonds. The Office of the Solicitor General (OSG) also filed a Motion for Reconsideration and Clarification, reiterating the BIR's right to withhold 20% as final withholding tax and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCBC Capital which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes. On the other hand, in November 2016, the Supreme Court denied the Motion for Reconsideration and Clarification filed by the OSG. The Supreme Court likewise held that due to the continued refusal of the Bureau of Treasury to release the amount of P4,966 million which it withheld upon maturity of the PEACe Bonds, even as it could have deposited the said amount in escrow as early as October 19, 2011, in compliance with the orders it had issued, the Bureau of Treasury is liable to pay legal interest of six percent (6%) per annum on the aforesaid amount of P4,966 million counted from the aforesaid date of October 19, 2011, until full paid.

29.3 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI), which purchased Iligan Plant Assets (Plant Assets) of the NSC from the Liquidator in 2004, filed a Notice of Arbitration with the Singapore International Arbitration Centre (SIAC) seeking damages arising from the failure of Liquidator and the secured creditors, including the Parent Company and RCBC Capital, to deliver the Plant Assets free and clear from liens and encumbrance; purportedly depriving them of the opportunity to use the assets in securing additional loans to fund the operations of the Plant Assets and upgrade the same. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award in favor of GSPI and GIHI in the total amount of (a) US$80 million, as and by way of lost opportunity to make profits and (b) P1,403 representing the value of the Lost Land Claim. A petition to set aside the Partial Award was filed with the Singapore High Court, and said petition was granted. GSPI and GIHI filed an appeal on September 1, 2014.

In the meantime, the secured creditors' application for the issuance of consequential orders relating to the discharge of the injunction, costs and other matters, the purpose of which is to allow the secured creditors to obtain complete relief from the SIAC Partial Award, was heard and granted by the Singapore High Court on November 17, 2014. In particular, the Singapore High Court confirmed that the injunctions issued in 2008 and that embodied in the Partial Award have been discharged, so that the secured creditors may now compel GSPI and GIHI to comply with their obligations under the Omnibus Agreement/Asset Purchase Agreement and take legal action upon GSPI's and GIHI's failure to do so. The Singapore High Court likewise granted the secured creditors' claim for the payment of legal costs, the amount of which shall be subject to further submissions. As a result of the ruling of the Singapore High Court that the injunctions previously issued have been discharged, the secured creditors, applying the principle of legal set-off, directed the release of GSPI and GIHI's installment payment by the Facility Agent. Accordingly, the Parent Company and RCBC Capital received their respective share in the funds previously held in escrow.

The Singapore Court of Appeals heard GSPI and GIHI's appeal on January 26, 2015. On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court insofar as it set aside (a) the monetary award of US$80 million and P1,403 representing lost opportunity to make profit and the value of the Lost Land Claim in favor of GSPI and GIHI, and (b) the deferment of GSPI and GIHI's obligation to pay the purchase price of the Plant Assets. The Singapore Court of Appeals ruled that (a) the issue of lost opportunity to make profit was not properly brought before the SIAC Arbitral Tribunal, and the award in issue is unsupported by evidence; (b) the SIAC Arbitral Tribunal erred in putting a value on the Lost Land, since the secured creditors did not, at any point, concede that they will be unable to deliver the same to GSPI and GIHI by October 15, 2012; and, (c) the dispute relating to GSPI and GIHI's payment obligation is an obligation under the Omnibus Agreement, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Parent Company, RCBC Capital and the other secured creditors to defer holding GSPI and GIHI in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to GSPI and GIHI clean title to the NSC Plant Assets.

On August 12, 2015, the Singapore Court of Appeals heard the oral arguments of the parties on the following issues: (a) the remand of the case to the Arbitral Tribunal or a new Arbitral Tribunal, as prayed for by GSPI and GIHI, so it can present evidence on their lost opportunity to make profit, and (b) the costs to be awarded to the NSC Liquidator and the Secured Creditors, which have been the subject of the submissions of the parties. On November 27, 2015, the Singapore Court of Appeals held that under the International Arbitration Act (IAA) of Singapore (based on the UNCITRAL Model Law on International Commercial Arbitration of 1985), which governed the proceedings between the parties, the remission or remand of the issue of GSPI and GIHI's lost opportunity to make profit to the Arbitral Tribunal, or to a new Arbitral Tribunal for that matter, is not allowed as remission under the IAA was conceived as an alternative to a setting aside action, and cannot be availed of where an award has been set aside by the courts. Likewise, the doctrines of *res judicata* and *abuse of process* also operate to preclude the reopening of this issue. However, as to the issue of the Lost Land Claims, the Singapore Court of Appeals opined that the Arbitral Tribunal never engaged with the merits of secured creditors' claim that the award to GSPI and GIHI of the amount of P1,403 million is premature. Thus, this issue, covering the Billet Shop Land of 3.4071 hectares (as set out in Schedule VI of the APA), may be the subject of a fresh arbitration proceedings before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the secured creditors.

The Parent Company's exposure is approximately P263 in terms of estimated property taxes and transfer costs due on the Plant Assets, while it has a receivable from GSPI and GIHI of P486 taking into consideration the P49 installment payment it had received from the funds previously in escrow. The Parent Company has fully provisioned the receivable, which is classified in the books of the Parent Company as UDSCL with zero net book value. The Parent Company's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the Plant Assets sold to GSPI and GIHI, covering the period 1999 to October 14, 2004, are deemed paid, following the denial with finality of the City of Iligan's Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on March 16, 2016.

In defiance, however, of the aforesaid final and executory ruling, the City of Iligan (a) issued a Notice of Delinquency against NSC, seeking to collect the tax arrears covering the period 1999 to 2016, (b) levied the NSC properties, and (c) set the same for public auction on October 19, 2016, which proceeded even as the LGU received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57, directing it to (a) comply with the valid and binding Tax Amnesty Agreement dated 13 October 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion praying that (a) the City of Iligan, the Sangguniang Panlunsod and City Treasurer be directed to show cause why they should not be held in contempt, and (b) the Auction Sale of the NSC properties held on October 19, 2016 be nullified.

29.4 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. (VMS), a corporation domiciled in Netherlands, and Verotel International Industries, Inc. (VII), a Philippine corporation civilly sued the Parent Company, Bankard, Inc. ("Bankard"), Grupo Mercarse Corp., CNP Worldwide, Inc. (CNP) and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5 million, which the defendants allegedly misappropriated. VMS is an internet merchant providing on-line adult entertainment and on-line gambling, in addition to the sale of pharmaceuticals over the internet.

On December 4, 2014, Judge Bruguera of the Los Angeles Superior Court declared a mistrial and recused herself from hearing the case after one of the plaintiffs' counsel unilaterally set a mandatory settlement conference with another judge of the Los Angeles Superior Court without any directive or clearance from her court. The case was subsequently raffled to Judge Mitchell Beckloff, who heard and denied the Parent Company and Bankard's Motion to Vacate the orders of Judge Bruguera, who had earlier denied the Parent Company and Bankard's motions for summary judgment. Judge Beckloff ruled that there are material facts in dispute which will require a full-blown trial. Due to the reassignment of Judge Beckloff to another court county effective September 14, 2015, the case was heard in January 2016 by a new judge, Judge Michael J. Raphael.

Trial before Judge Raphael transpired from January 13 to 26, 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for Judge Raphael's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. However, recognizing that his disposition of the Parent Company and Bankard's pending motion for nonsuit (which cited, among others, the ruling of the California Supreme Court in the case of *Greb v. Diamond International Corp.* (56 Cal. 4th 243 [2013]), will impact the jury verdict, Judge Raphael, on his own, deferred the entry of such jury verdict until after the March 10, 2016 hearing on the Parent Company and Bankard's motion for nonsuit.

On March 10, 2016, the Parent Company and Bankard informed Judge Raphael that they will, instead, be filing a motion for judgment notwithstanding verdict (JNOV) and motion for new trial, as these are more appropriate to address the fact that, not only was the litigated claim time-barred, and VII/VMS do not have the capacity and standing to sue, respectively, the very evidence presented by VII/VMS showed that (a) the monetary claim arose from transactions involving websites not owned by VII/VMS, (b) these have been registered under another merchant, and (c) therefore, the website are not covered by VII's Tripartite Merchant Agreement with Bankard. On April 11, 2016, the Parent Company and Bankard timely filed their motions for JNOV and new trial where they likewise assailed the many misleading statements made by the counsel for VII/VMS in his closing argument, which incited the passion and prejudice of the jurors. On April 27, 2016, the Parent Company and Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, Judge Raphael heard, and partially granted, the Parent Company and Bankard's Motion for JNOV by deleting the US$7.5 million punitive damages awarded to VMS in the absence of proof that (a) a corporate officer of the Parent Company/Bankard knew of, authorized, or ratified Janet Conway's fraudulent acts, and (b) Conway was a managing agent of the Parent Company/Bankard within the meaning of the California Civil Code Section 3294(b). However, Judge Raphael ruled that Conway was an agent of the Parent Company/Bankard for some purposes. Thus, he deemed the statute of limitation equitably tolled during that time Conway represented that she was negotiating to recover the funds from the defendants, as an alternative to filing a lawsuit, and sustained the award of US$1.5 million. Judge Raphael likewise deemed the issue of VII's lack of capacity to sue mooted as the jury did not award any damages thereto, and held that VMS has standing to bring its tort claims as it was allegedly established that VMS had a business relationship with the Parent Company/Bankard. As for the Motion for New Trial, Judge Raphael ruled that (a) he cannot conclude that the conduct of plaintiffs and their counsel during the trial resulted in a miscarriage of justice, and (b) at any rate, the deletion of the punitive damages mooted the issue. Judge Raphael likewise heard, and partially granted, plaintiffs' motion for interest and awarded VMS prejudgment interest in the amount of US$0.5 million.

On July 11, 2016, the Parent Company and Bankard (a) timely filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals, and (b) received a copy of the Notice of Appeal solely filed by VMS on July 8, 2016. On July 21, 2016, the Parent Company/Bankard timely posted the amount of US$3.1 million, as and by way of security to stay the enforcement of the Amended Judgment rendered by Judge Raphael.

On July 29, 2016, VMS filed an Application to File Certificate of Interested Parties Under Seal, which the Parent Company and Bankard opposed, pointing out that the identities subject of the disclosure were publicly disclosed in the trial proceedings and was, in fact, a central issue in this case and appeal as it relates to whether VMS has standing in this case and is entitled to any damages. In an Order dated August 30, 2016, the California Court of Appeals sustained the Parent Company and Bankard and directed VMS to file its Certificate of Interested Persons, not under seal; which VMS complied with on September 8, 2016. In an Order dated November 16, 2016 and filed on the same date, the California Court of Appeals adopted the briefing sequence of the Parent Company and Bankard. As such, the Parent Company/Bankard's deadline for the filing of their Opening Brief is set on March 6, 2017.

29.5 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit.

The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU and within FCDU.

On April 6, 2015, Petitioner-Banks, including the Parent Company, filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Preliminary Injunction, with the Regional Trial Court (RTC) of Makati. Further, in Civil Case No. 15-287, the petitioner Banks assailed the validity of RR 4-2011 on various grounds including but not limited to (a) that the said RR was issued and implemented in violation of the petitioner-banks' substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and, (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation.

On April 8, 2015, Makati City RTC issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, Makati City RTC issued a Writ of Preliminary Injunction (WPI) enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioner-Banks, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On June 10, 2015, Makati City RTC issued a Confirmatory Order which confirms the effects of the TRO and WPI, that the writ of preliminary injunction currently in effect includes a prohibition against the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as Petitioner-Banks are concerned. The Pre-Trial Conference of the case began on August 2, 2016.

29.6 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board of the BSP approved the imposition of supervisory action on the Parent Company to pay the amount of P1.0 billion in relation to the completed special examination. There may be other cases arising from these events. The Parent Company has fully recognized in the 2016 statement of profit or loss the P1.0 billion supervisory action as part of Miscellaneous Expenses under Other Operating Expenses (see Note 25.2). On August 12, 2016, the Parent Company already paid the BSP P500 million of the penalty with the remaining balance due in August 2017, in accordance with the terms set by the BSP. The Parent Company does not expect this imposition of supervisory action to affect its ability to perform its existing obligations or unduly hamper its operations.

There are no known trends, demands, and commitments, events, or uncertainties that will have a material impact on the Parent Company's operational performance and ability to service obligations.

Except for the above-mentioned proceedings, the Parent Company is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely would have a material effect on its financial position or operating results.

29.7 Lease Commitments

(a) Parent Company as a Lessor

In October 2013, the Parent Company has entered into a five-year lease agreement with RSB for the latter's lease of certain office and parking spaces in RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. Rental income recognized by the Parent Company in 2014 amounted P95 and is presented as part of Rental under the Other Operating Income account in the 2014 statement of profit or loss [(see Notes 14.2, 25.1 and 28.5(b)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	2016	2015
Within one year	**P 294**	P 280
After one year but not more than five years	**1,331**	1,267
	P 1,625	P 1,547

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers. The Group's rental expense (included as part of Occupancy and Equipment-related account in the statements of profit or loss) amounted to P977, P742 and P754 in 2016, 2013 and 2014, respectively. The lease periods are from one to 25 years. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

As of December 31, 2016, future minimum rental payables under these non-cancellable operating leases follow:

	Group	**Parent Company**
Within one year	P 853	P 605
After one year but not more than five years	2,600	2,246
More than five years	228	193
	P 3,681	**P 3,044**

30. EARNINGS PER SHARE

The following reflects the profit and per share data used in the basic and diluted EPS computations (figures in millions, except EPS data):

	Group		
	2016	2015	2014
Basic and Diluted EPS			
a. Net profit attributable to Parent Company's shareholders	**P 3,868**	P 5,129	P 4,411
Allocated for preferred and Hybrid Tier 1 (HT 1) dividends	**-**	(219)	(442)
b. Adjusted net profit before capital redemption	**3,868**	4,910	3,969
Redemption premium on HT1	**-**	(723)	-
c. Adjusted net profit	**P 3,868**	P 4,187	P 3,969
d. Weighted average number of outstanding common stocks	**1,400**	1,362	1,276
EPS before capital redemption (b/d)	**P 2.76**	P 3.60	P 3.11
Basic and diluted EPS (c/d)	**P 2.76**	P 3.07	P 3.11

	Parent Company 2016		2015 (As Restated - see Note 2.2)		2014 (As Restated - see Note 2.2)
Basic and Diluted EPS					
a. Net profit attributable to Parent Company's shareholders	P	**3,868**	P 5,129	P	4,411
Allocated for preferred and HT 1 dividends		**-**	(219)		(442)
b. Adjusted net profit before capital redemption		**3,868**	4,910		3,969
Redemption premium on HT1		**-**	(723)		-
c. Adjusted net profit	P	**3,868**	P 3,326	P	3,969
d. Weighted average number of outstanding common stocks		**1,400**	1,362		1,276
EPS before capital redemption (b/d)	P	**2.76**	P 3.60	P	3.11
Basic and diluted EPS (c/d)	P	**2.76**	P 3.07	P	3.11

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group 2016	2015	2014
Return on average equity:			
Net profit / Average total equity	**6.42%**	9.33%	9.23%
Return on average resources:			
Net profit / Average total resources	**0.77%**	1.09%	1.04%
Net interest margin:			
Net interest income / Average interest earning resources	**4.06%**	4.15%	4.30%
Profit margin:			
Net profit / Revenues	**16.95%**	23.07%	19.98%
Debt-to-equity ratio:			
Total liabilities / Total equity	**7.39**	7.88	7.62
Resources-to-equity ratio:			
Total resources / Total equity	**8.39**	8.88	8.62
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**1.50**	1.81	2.02

	Parent Company		
	2016	2015 (As Restated - see Note 2.2)	2014 (As Restated - see Note 2.2)
Return on average equity:			
Net profit / Average total equity	**6.43%**	9.34%	9.26%
Return on average resources:			
Net profit / Average total resources	**0.93%**	1.30%	1.23%
Net interest margin:			
Net interest income / Average interest earning resources	**3.47%**	3.62%	3.71%
Profit margin:			
Net profit / Revenues	**22.67%**	32.32%	26.41%
Debt-to-equity ratio:			
Total liabilities / Total equity	**5.73**	6.40	6.22
Resources-to-equity ratio:			
Total resources / Total equity	**6.73**	7.40	7.23
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**1.60**	2.06	2.14

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statement of Management's Responsibility for Financial Statements

The management of **Rizal Commercial Banking Corporation and Subsidiaries** (the Group), is responsible for the preparation and fair presentation of the financial statements as at December 31, 2015 and 2014, and for each of the three years in the period ended December 31, 2015, including the additional components attached therein, in accordance with Financial Reporting Standards in the Philippines for Banks (FRSPB).

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Group in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

HELEN Y. DEE
Chairperson, Board of Directors

LORENZO V. TAN
President & Chief Executive Officer

RAUL VICTOR B. TAN
EVP, Head-Treasury Group

FLORENTINO M. MADONZA
SVP, Head-Controllership Group

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RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Report of Independent Auditors

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

We have audited the accompanying financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The management of the Group is responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Reporting Standards in the Philippines for Banks, as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

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

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-FR-4

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rizal Commercial Banking Corporation and subsidiaries and of Rizal Commercial Banking Corporation as of December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015, in accordance with Financial Reporting Standards in the Philippines for Banks, as described in Note 2 to the financial statements.

Emphasis of a Matter

As discussed in Note 26 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) 15-2010 and RR 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 and RR 19-2011 require the supplementary information to be presented in the notes to financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with Financial Reporting Standards in the Philippines for Banks; it is neither a required disclosure under the Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission.

Ma. Isabel Comedia

By: Maria Isabel E. Comedia
Partner

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TIN 189-477-563
PTR No. 5321722, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-2 (until Oct. 2, 2016)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-21-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 29, 2016

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statements of Financial Position

DECEMBER 31, 2015 AND 2014
(Amounts in Millions of Philippine Pesos)

		GROUP		PARENT COMPANY	
	Notes	**2015**	2014	**2015**	2014
RESOURCES					
CASH AND OTHER CASH ITEMS	9	**P 14,070**	P 13,085	**P 10,127**	P 9,539
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**50,617**	46,099	**42,026**	37,763
DUE FROM OTHER BANKS	9	**19,701**	16,600	**18,196**	15,535
TRADING AND INVESTMENT SECURITIES - Net	10	**111,201**	100,790	**97,790**	87,540
LOANS AND RECEIVABLES - Net	11	**299,119**	261,574	**231,708**	205,614
INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND ASSOCIATES - Net	12	**363**	321	**8,748**	7,999
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**7,602**	7,031	**4,975**	4,487
INVESTMENT PROPERTIES - Net	14	**3,370**	5,355	**2,883**	3,426
OTHER RESOURCES - Net	15	**10,018**	7,050	**6,201**	5,027
TOTAL RESOURCES		**P 516,061**	P 457,905	**P 422,654**	P 376,930

	Notes	GROUP 2015	GROUP 2014	PARENT COMPANY 2015	PARENT COMPANY 2014
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	**P 342,362**	P 315,761	**P 264,070**	P 248,022
BILLS PAYABLE	18	**49,404**	39,799	**45,816**	36,837
BONDS PAYABLE	19	**39,364**	23,486	**39,364**	23,486
SUBORDINATED DEBT	20	**9,936**	9,921	**9,936**	9,921
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	21	**4,453**	4,671	**3,404**	3,498
OTHER LIABILITIES	22	**12,413**	11,136	**9,247**	8,474
Total Liabilities		**457,932**	404,774	**371,837**	330,238
EQUITY	23	**58,129**	53,131	**50,817**	46,692
TOTAL LIABILITIES AND EQUITY		**P 516,061**	P 457,905	**P 422,654**	P 376,930

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statements of Profit or Loss

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		GROUP			PARENT COMPANY		
	Notes	**2015**	2014	2013	**2015**	2014	2013
INTEREST INCOME							
Loans and receivables	11	**P 17,462**	P 15,961	P 14,302	**P 12,163**	P 11,143	P 10,138
Trading and investment securities	10	**3,880**	4,026	4,259	**3,455**	3,578	3,762
Others	9, 24	**178**	213	263	**145**	190	246
		21,520	20,200	18,824	**15,763**	14,911	14,146
INTEREST EXPENSE							
Deposit liabilities	17	**2,992**	2,581	2,682	**2,006**	1,849	1,855
Bills payable and other borrowings	18, 19, 20, 24	**2,951**	2,652	2,831	**2,832**	2,519	2,698
		5,943	5,233	5,513	**4,838**	4,368	4,553
NET INTEREST INCOME		**15,577**	14,967	13,311	**10,925**	10,543	9,593
IMPAIRMENT LOSSES - Net	16	**2,350**	2,509	2,054	**1,150**	1,663	1,380
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**13,227**	12,458	11,257	**9,775**	8,880	8,213
OTHER OPERATING INCOME							
Service fees and commissions	2	**2,897**	2,297	2,398	**1,217**	1,166	1,375
Trading and securities gains - net	2, 10	**1,406**	2,545	2,600	**1,311**	1,869	1,762
Trust fees	27	**286**	297	304	**232**	255	257
Foreign exchange gains - net	2, 19	**181**	237	264	**133**	199	221
Miscellaneous	25	**1,885**	1,726	4,244	**2,054**	2,668	4,208
		6,655	7,102	9,810	**4,947**	6,157	7,823
TOTAL OPERATING INCOME		**P 19,882**	P 19,560	P 21,067	**P 14,722**	P 15,037	P 16,036

Forward

	Notes	GROUP 2015	GROUP 2014	GROUP 2013	PARENT COMPANY 2015	PARENT COMPANY 2014	PARENT COMPANY 2013
TOTAL OPERATING INCOME		**P 19,882**	P 19,560	P 21,067	**P 14,722**	P 15,037	P 16,036
OTHER OPERATING EXPENSES							
Employee benefits	24	**4,731**	4,064	3,886	**3,190**	2,748	2,639
Occupancy and equipment-related	28, 29	**2,607**	2,528	2,390	**1,917**	1,863	1,731
Depreciation and amortization	13, 14, 15	**1,611**	1,577	1,318	**994**	860	772
Taxes and licenses	14	**1,437**	1,463	1,708	**938**	1,016	1,202
Miscellaneous	25	**4,675**	4,604	5,172	**3,397**	3,483	3,943
		15,061	14,236	14,474	**10,436**	9,970	10,287
PROFIT BEFORE TAX		**4,821**	5,324	6,593	**4,286**	5,067	5,749
TAX EXPENSE (INCOME)	26	**(307)**	914	1,259	**18**	588	967
NET PROFIT		**P 5,128**	P 4,410	P 5,334	**P 4,268**	P 4,479	P 4,782
ATTRIBUTABLE TO:							
PARENT COMPANY SHAREHOLDERS		**P 5,129**	P 4,411	P 5,321			
NON-CONTROLLING INTERESTS		**(1)**	(1)	13			
		P 5,128	P 4,410	P 5,334			
Earnings Per Share (EPS)	30						
EPS before impact of capital redemption		**P 3.60**	P 3.11	P 3.95	**P 2.97**	P 3.16	P 3.52
Impact of redemption of Hybrid Perpetual Securities	23	**(0.53)**	-	-	**(0.53)**	-	-
Basic and diluted EPS		**P 3.07**	P 3.11	P 3.95	**P 2.44**	P 3.16	P 3.52

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2015**	2014	2013	**2015**	2014	2013
NET PROFIT		**P 5,128**	P 4,410	P 5,334	**P 4,268**	P 4,479	P 4,782
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Actuarial gains (losses) on defined benefit plan	24	**(1,044)**	1	(773)	**(987)**	80	(755)
Fair value gains (losses) on financial assets at fair value through other comprehensive income	10, 23	**(140)**	118	-	**(220)**	56	-
		(1,184)	119	(773)	**(1,207)**	136	(755)
Items that will be reclassified subsequently to profit or loss							
Translation adjustments on foreign operations	23	**(10)**	(5)	4	**-**	-	-
Fair value losses on available-for-sale securities	10, 23	**-**	-	(8,150)	**-**	-	(6 ,982)
		(10)	(5)	(8,146)	**-**	-	(6,982)
Total Other Comprehensive Income (Loss)	23	**(1,194)**	114	(8 ,919)	**(1,207)**	136	(7,737)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**P 3,934**	P 4,524	(P 3,585)	**P 3,061**	P 4,615	(P 2,955)
ATTRIBUTABLE TO:							
PARENT COMPANY SHAREHOLDERS		**P 3,932**	P 4,525	(P 3,598)			
NON-CONTROLLING INTERESTS		**2**	(1)	13			
		P 3,934	P 4,524	(P 3,585)			

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		GROUP										
		ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS										
	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2015		P 12,757	P 3	P 16,148	P 4,883	P 682	P 366	(P 97)	P 18,367	P 53,109	P 22	P 53,131
Transactions with owners	23											
Issuance of common shares during the year		1,242	-	6,487	-	-	-	-	-	7,729	-	7,729
Redemption of hybrid perpetual securities		-	-	-	(4,883)	-	-	-	(723)	(5,606)	-	(5,606)
Cash dividends		-	-	-	-	-	-	-	(1,059)	(1,059)	-	(1,059)
Total transactions with owners		1,242	-	6,487	(4,883)	-	-	-	(1,782)	1,064	-	1,064
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,197)	-	-	5,129	3,932	2	3,934
Transfer of fair value gains on financial assets at fair value through other comprehensive income to surplus	23	-	-	-	-	(3)	-	-	3	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	22	-	(22)	-	-	-
		1,242	-	6,487	(4,883)	(1,200)	22	-	3,328	4,996	2	4,998
Balance at December 31, 2015		**P 13,999**	**P 3**	**P 22,635**	**-**	**(P 518)**	**P 388**	**(P97)**	**P 21,695**	**P 58,105**	**P 24**	**P 58,129**
Balance at January 1, 2014, as previously stated		P 12,757	P 3	P 16,148	P 4,883	(P 5,154)	P 348	(P 282)	P 16,082	P 44,785	P 23	P 44,808
Effect of adoption of PFRS 9, *Financial Instruments*	2	-	-	-	-	5,694	-	-	(177)	5,517	-	5,517
Balance at January 1, 2014, as restated		12,757	3	16,148	4,883	540	348	(282)	15,905	50,302	23	50,325
Transactions with owners	23											
Effect of retirement of preferred shares		-	-	-	-	-	-	185	(185)	-	-	-
Cash dividends		-	-	-	-	-	-	-	(1,718)	(1,718)	-	(1,718)
Total transactions with owners		-	-	-	-	-	185	(1,903)	(1,903)	(1,718)	-	(1,718)
Total comprehensive income (loss) for the year	23	-	-	-	-	114	-	-	4,411	4,525	(1)	4,524
Transfer of fair value losses on financial assets at fair value through other comprehensive income to surplus	23	-	-	-	-	28	-	-	(28)	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	18	-	(18)	-	-	-
		-	-	-	-	142	18	185	2,462	2,807	(1)	2,806
Balance at December 31, 2014		P 12,757	P 3	P 16,148	P 4,883	P 682	P 366	(P 97)	P 18,367	P 53,109	P 22	P 53,131
Balance at January 1, 2013		P 11,409	P 3	P 9,397	P 4,883	P 3,765	P 329	(P 330)	P 12,676	P 42,132	P 30	P 42,162
Transactions with owners	23											
Issuance of common shares during the year		1,348	-	6,751	-	-	-	-	-	8,099	-	8,099
Effect of change in percentage ownership over subsidiaries		-	-	-	-	-	-	48	(204)	(156)	(20)	(176)
Cash dividends		-	-	-	-	-	-	-	(1,692)	(1,692)	-	(1,692)
Total transactions with owners		1,348	-	6,751	-	-	-	48	(1,896)	6,251	(20)	6,231
Total comprehensive income (loss) for the year	23	-	-	-	-	(8,919)	-	-	5,321	(3,598)	13	(3,585)
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	19	-	(19)	-	-	-
		1,348	-	6,751	-	(8,919)	19	48	3,406	2,653	(7)	2,646
Balance at December 31, 2013		P 12,757	P 3	P 16,148	P 4,883	(P 5,154)	P 348	(P 282)	P 16,082	P 44,785	P 23	P 44,808

PARENT COMPANY

	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	RESERVE FOR TRUST BUSINESS	SURPLUS	TOTAL EQUITY
Balance at January 1, 2015		P 12,757	P 3	P 16,148	P 4,883	P 749	P 341	P 11,811	P 46,692
Transactions with owners	23								
Issuance of common shares during the year		1,242	-	6,487	-	-	-	-	7,729
Redemption of hybrid perpetual securities		-	-	-	(4,883)	-	-	(723)	(5,606)
Cash dividends		-	-	-	-	-	-	(1,059)	(1,059)
Total transactions with owners		1,242	-	6,487	(4,883)	-	-	(1,782)	(1,064)
Total comprehensive income (loss) for the year	23	-	-	-	-	(1,207)	-	4,268	3,061
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	15	(15)	-
		1,242	-	6,487	(4,883)	(1,207)	15	2,471	4,125
Balance at December 31, 2015		**P 13,999**	**P 3**	**P 22,635**	**P -**	**(P 458)**	**P 356**	**(P 14,282)**	**P 50,817**
Balance at January 1, 2014, as previously stated		P 12,757	P 3	P 16,148	P 4,883	(P 4,489)	P 327	(P 9,521)	P 39,150
Effect of adoption of PFRS 9, *Financial Instruments*	2	-	-	-	-	5,102	-	(457)	4,645
Balance at January 1, 2014, as restated		12,757	3	16,148	4,883	613	327	9,064	43,795
Transactions with owners	23								
Cash dividends		-	-	-	-	-	-	(1,718)	(1,718)
Total comprehensive income for the year	23	-	-	-	-	136	-	4,479	4,615
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	14	(14)	-
		-	-	-	-	136	14	2,747	2,897
Balance at December 31, 2014		P 12,757	P 3	P 16,148	P 4,883	P 749	P 341	P 11,811	P 46,692
Balance at January 1, 2013		P 11,409	P 3	P 9,397	P 4,883	P 3,248	P 312	P 6,446	P 35,698
Transactions with owners	23								
Issuance of common shares during the year		1,348	-	6,751	-	-	-	-	8,099
Cash dividends		-	-	-	-	-	-	(1,692)	(1,692)
Total transactions with owners		1,348	-	6,751	-	-	-	(1,692)	6,407
Total comprehensive income (loss) for the year	23	-	-	-	-	(7,737)	-	4,782	(2,955)
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	15	(15)	-
		1,348	-	6,751	-	(7,737)	15	3,075	3,452
Balance at December 31, 2013		P 12,757	P 3	P 16,148	P 4,883	(P 4,489)	P 327	P 9,521	P 39,150

See Notes to Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Millions of Philippine Pesos)

		GROUP			PARENT COMPANY		
	Notes	**2015**	2014	2013	**2015**	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 4,821**	P 5,324	P 6,593	**P 4,286**	P 5,067	P 5,749
Adjustments for:							
Interest income		**(21,520)**	(20,200)	(18,824)	**(15,763)**	(14,911)	(14,146)
Interest received		**21,149**	19,980	19,106	**15,593**	14,757	14,433
Interest expense		**5,943**	5,233	5,513	**4,838**	4,368	4,553
Interest paid		**(5,861)**	(5,162)	(5,637)	**(4,720)**	(4,412)	(4,658)
Impairment losses	16	**2,350**	2,509	2,054	**1,150**	1,663	1,380
Depreciation and amortization	13, 14, 15	**1,611**	1,577	1,318	**994**	860	772
Gain on assets sold	14, 25	**(281)**	(333)	(696)	**(162)**	(18)	(512)
Dividend income	25	**(237)**	(285)	(182)	**(766)**	(1,682)	(1,000)
Share in net earnings of associates	12	**(93)**	(24)	(243)	**-**	-	-
Gain from disposals of investments in subsidiary and associates		**-**	-	(1,380)	**-**	-	(1,787)
Operating profit before working capital changes		**7,882**	8,619	7,622	**5,450**	5,692	4,784
Decrease in financial assets at fair value through profit and loss		**11,346**	21,018	8,204	**11,069**	19,381	6,688
Increase in financial assets at fair value through other comprehensive income		**(493)**	(76)	-	**(339)**	-	-
Increase in loans and receivables		**(39,323)**	(28,046)	(50,531)	**(27,179)**	(17,819)	(40,680)
Decrease in investment properties		**1,502**	242	2,905	**408**	657	1,674
Decrease (increase) in other resources		**(1,469)**	942	(414)	**(96)**	(234)	20
Increase in deposit liabilities		**26,601**	17,908	51,096	**16,048**	4,402	47,185
Increase (decrease) in accrued interest, taxes and other expenses		**(89)**	(59)	(502)	**(15)**	(2)	235
Increase (decrease) in other liabilities		**232**	(119)	2,287	**(214)**	337	1,568
Cash generated from operations		**6,189**	20,429	20,667	**5,132**	12,414	21,474
Cash paid for taxes		**(602)**	(792)	(1,382)	**(540)**	(593)	(955)
Net Cash From Operating Activities		**5,587**	19,637	19,285	**4,592**	11,821	20,519
CASH FLOWS FROM INVESTING ACTIVITIES							
Increase in investment securities at amortized cost		**(21,428)**	(20,993)	-	**(21,200)**	(20,577)	-
Acquisitions of bank premises, furniture, fixtures, and equipment	13	**(1,961)**	(912)	(2,751)	**(1,411)**	(573)	(3,319)
Cash dividends received	12, 25	**313**	285	466	**766**	1,682	1,000
Proceeds from disposals of bank premises, furniture, fixtures and equipment	13	**461**	98	362	**242**	185	52
Acquisitions of intangible assets	15	**(1,348)**	(288)	(304)	**(1,243)**	(124)	(249)
Additional investments in and advances to subsidiaries and associates	12	**-**	(4)	-	**(750)**	(4)	-
Increase in available-for-sale securities		**-**	-	(12,783)	**-**	-	(13,570)
Proceeds from disposals of investments in subsidiary and associates		**-**	-	4,772	**-**	-	5,344
Net Cash Used in Investing Activities		**(23,963)**	(21,814)	(10,238)	**(23,596)**	(19,411)	(10,742)
CASH FLOWS FROM FINANCING ACTIVITIES							
Net proceeds from issuance of bonds payable	19	**15,878**	-	-	**15,878**	-	-
Proceeds from (payments of) bills payable	18	**9,605**	(96)	13,508	**8,979**	(230)	13,096
Issuance of common stock	23	**7,729**	-	8,099	**7,729**	-	8,099
Redemption of hybrid perpetual securities	23	**(5 ,173)**	-	-	**(5,173)**	-	-
Dividends paid	23	**(1,059)**	(1,718)	(1,692)	**(1,059)**	(1,718)	(1,692)
Net proceeds from issuance of subordinated debt	20	**-**	9,921	-	**-**	9,921	-
Redemption of subordinated debt	20	-	-	(10,987)	-	-	(10,987)
Net Cash From Financing Activities		**26,980**	8,107	8,928	**26,354**	7,973	8,516
NET INCREASE IN CASH AND CASH EQUIVALENTS							
(Balance Carried Forward)		**P 8,604**	P 5,930	P 17,975	**P 7,350**	P 383	P 18,293

	Notes	GROUP 2015	GROUP 2014	GROUP 2013	PARENT COMPANY 2015	PARENT COMPANY 2014	PARENT COMPANY 2013
NET INCREASE IN CASH AND CASH EQUIVALENTS *(Balance Brought Forward)*		**P 8,604**	P 5,930	P 17,975	**P 7,350**	P 383	P 18,293
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	9	**13,085**	9,826	9,380	**9,539**	7,563	7,432
Due from Bangko Sentral ng Pilipinas	9	**46,099**	52,491	36,620	**37,763**	48,679	31,590
Due from other banks	9	**16,600**	7,537	5,879	**15,535**	6,212	5,139
		75,784	69,854	51,879	**62,837**	62,454	44,161
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	9	**14,070**	13,085	9,826	**10,127**	9,539	7,563
Due from Bangko Sentral ng Pilipinas	9	**50,617**	46,099	52,491	**42,026**	37,763	48,679
Due from other banks	9	**19,701**	16,600	7,537	**18,196**	15,535	6,212
		P 84,388	P 75,784	P 69,854	**P 70,187**	P 62,837	P 62,454

Supplemental Information on Non-cash Investing and Financing Activities:

1. On January 1, 2014, as a result of the adoption of Philippine Financial Reporting Standards 9, *Financial Instruments (2009, 2010 and 2013 versions)*, the Group and the Parent Company reclassified a portfolio of AFS securities amounting to P53,996 and P45,827, respectively, to financial assets at amortized cost; P31,910 and P29,547, respectively, to financial assets at FVPL; P3,245 and P1,247, respectively, to financial assets at FVOCI; and, both for P261 to loans and receivables.

2. In 2014, the Parent Company sold a certain non-performing asset with a carrying amount of P774 for a total consideration of P740 consisting of P35 cash as downpayment, P40 accounts receivables and P665 sales contract receivables (see Note 14).

3. In 2014, the Parent Company reclassified a portion of RSB Corporate Center including the land where it is located with carrying amount of P1,985 and P419, respectively, from Bank Premises, Furniture, Fixtures, and Equipment to Investment Properties account following the commencement of operating leases for the significant portion of the property during the year. In the consolidated financial statements of the Group, a portion of the property being leased out with gross amount of P1,524 is classified as part of the Investment Properties account in the 2014 statement of financial position. In 2015, building and land amounting to P71 and P12, respectively, were reverted to Bank Premises, Furniture, Fixtures, and Equipment due to change in use (see Notes 13 and 14).

4. In 2013, the Group received a 10-year note from Philippine Asset Growth One, Inc. with a face amount of P731 which formed part of the consideration received in relation to the Parent Company's disposal of non-performing assets (see Note 11).

5. The Group and the Parent Company foreclosed real and other properties totalling to P1,631 and P13, respectively, in 2015, P834 and P18, respectively, in 2014, and P690 and P16, respectively, in 2013, in settlement of certain loan accounts (see Note 14).

See Notes to Financial Statements.

(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. It also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans and mortgage/housing loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the General Banking Law of 2000, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group's and Parent Company's banking network within and outside the Philippines as of December 31 follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Automated teller machines (ATMs)	**1,342**	1,202	**906**	812
Branches	**420**	414	**259**	252
Extension offices	**36**	35	**26**	25

RCBC is 41.68% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

In 2014, the Parent Company amended its Articles of Incorporation specifying its principal office to be at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates:

Subsidiaries/Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership 2015	2014
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Consumer and retail banking		**100.00**	100.00
RCBC Forex Brokers Corporation (RCBC Forex)	Foreign exchange dealing		**100.00**	100.00
RCBC Telemoney Europe (RCBC Telemoney)	Remittance		**100.00**	100.00
RCBC North America, Inc. (RCBC North America)	Remittance	(a)	**100.00**	100.00
RCBC International Finance Limited (RCBC IFL)	Remittance		**100.00**	100.00
RCBC Investment Ltd.	Remittance	(b)	**100.00**	100.00
RCBC Capital Corporation (RCBC Capital)	Investment house		**99.96**	99.96
RCBC Securities, Inc. (RSI)	Securities brokerage and dealing	(c)	**99.96**	99.96
RCBC Bankard Services Corporation (RBSC)	Credit card management	(c)	**99.96**	99.96
RCBC-JPL Holding Company, Inc. (RCBC JPL)	Property holding		**99.39**	99.39

Subsidiaries/Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership 2015	2014
Merchants Savings and Loan Association, Inc. (Rizal Microbank)	Thrift banking		**98.03**	97.47
RCBC Leasing and Finance Corporation (RCBC LFC)	Financial leasing		**97.79**	97.79
RCBC Rental Corporation	Property leasing	(d)	**97.79**	97.79
Special Purpose Companies (SPCs):	Real estate buying and selling	(e)		
Best Value Property and Development Corporation (Best Value)			**100.00**	100.00
Cajel Realty Corporation (Cajel)			**100.00**	100.00
Crescent Park Property and Development Corporation (Crescent Park)			**100.00**	100.00
Crestview Properties Development Corporation (Crestview)			**100.00**	100.00
Eight Hills Property and Development Corporation (Eight Hills)			**100.00**	100.00
Fairplace Property and Development Corporation			**100.00**	100.00
Gold Place Properties Development Corporation (Gold Place)			**100.00**	100.00
Goldpath Properties Development Corporation (Goldpath)			**100.00**	100.00
Greatwings Properties Development Corporation (Greatwings)			**100.00**	100.00
Happyville Property and Development Corporation			**100.00**	100.00
Landview Property and Development Corporation			**100.00**	100.00
Lifeway Property and Development Corporation (Lifeway)			**100.00**	100.00
Niceview Property and Development Corporation (Niceview)			**100.00**	100.00
Niyog Property Holdings, Inc. (NPHI)		(f)	**100.00**	100.00
Princeway Properties Development Corporation (Princeway)			**100.00**	100.00
Stockton Realty Development Corporation			**100.00**	100.00
Top Place Properties Development Corporation (Top Place)			**100.00**	100.00
Associates:				
YGC Corporate Services, Inc. (YCS)	Support services for YGC		**40.00**	40.00
Luisita Industrial Park Co. (LIPC)	Real estate buying, developing, selling and rental		**35.00**	35.00
Honda Cars Phils., Inc. (HCPI)	Sale of motor vehicles		**12.88**	12.88

Except for RCBC Telemoney (Italy), RCBC North America (USA), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines.

Explanatory Notes:

(a) The Parent Company has 83.97% direct ownership interest and 16.03% indirect ownership interest through RCBC IFL. RCBC North America was operational only until March 31, 2014.
(b) A wholly-owned subsidiary of RCBC IFL.
(c) Wholly-owned subsidiaries of RCBC Capital.
(d) A wholly-owned subsidiary of RCBC LFC.
(e) Except for NPHI, the SPCs are wholly-owned subsidiaries of RSB; the SPCs except for NPHI and Cajel, will be liquidated in 2016 pursuant to BSP recommendation (see Note 15.1).
(f) The Parent Company has 48.11% direct ownership interest and 51.89% indirect ownership interest through RSB.

1.3 Approval of Financial Statements

The consolidated financial statements of RCBC and subsidiaries and the financial statements of RCBC as of and for the year ended December 31, 2015 (including the comparatives as of December 31, 2014 and for the years ended December 31, 2014 and 2013) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 29, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The 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 Financial Reporting Standards in the Philippines for Banks

The consolidated financial statements of the Group and the separate financial statements of the Parent Company have been prepared in accordance with the Financial Reporting Standards in the Philippines for Banks (FRSPB).

FRSPB are similar to Philippine Financial Reporting Standards (PFRS), which are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by Philippine Board of Accountancy, except for the following accounting treatments for certain financial instruments which are not allowed under PFRS, but were allowed under FRSPB as permitted by the BSP for prudential reporting, and by the Securities and Exchange Commission (SEC) for financial reporting purposes: (i) the non-separation of the embedded derivatives in credit-linked notes (CLNs) and other similar instruments that are linked to Republic of the Philippines (ROP) bonds to their host instruments and reclassification of ROP bonds together with the embedded derivatives in CLNs from the fair value through profit or loss (FVPL) classification to loans and receivables and available-for-sale (AFS) securities classifications; and, (ii) the reclassification of certain financial assets previously classified under AFS Securities category back to held-to-maturity (HTM) category due to the tainting of HTM investments portfolio. The effects of the reclassifications to certain accounts in the statement of profit or loss for the year ended December 31, 2013 under FRSPB are discussed fully in Note 11.3. However, these reclassifications were no longer applicable upon the adoption of PFRS 9 (2009, 2010 and 2013 versions), hereinafter referred to as PFRS 9, effective January 1, 2014.

These financial statements have been prepared using the measurement bases specified by FRSPB 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 Standards (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

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

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency (see Note 2.18). All amounts are in millions, except per share data or when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

(a) Effective in 2015 that are Relevant to the Group

The Group adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after July 1, 2014, for its annual reporting period beginning January 1, 2015:

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amended standard and improvements.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Group's financial statements since the Group's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

(ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but had no material impact on the Group's financial statements as these amendments merely clarify the existing requirements:

Annual Improvements to PFRS (2010-2012 Cycle)

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.
- PFRS 3 (Amendment), *Business Combinations*. This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as financial liability or as equity in accordance with PAS 32, *Financial Instruments: Presentation*. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.
- PFRS 8 (Amendment), *Operating Segments*. This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

Annual Improvements to PFRS (2011-2013 Cycle)

- PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangements*, in the financial statements of the joint arrangement itself.

- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owneroccupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40 or a business combination in accordance with PFRS 3.

(b) Effective in 2015 that is not Relevant to the Company

Among the annual improvements to PFRS (2010-2012 Cycle) that are mandatory for accounting periods beginning on or after July 1, 2014, but not relevant to the Group is PFRS 2 (Amendment) – *Share-based Payment – Definition of Vesting Condition.*

(c) Effective Subsequent to 2015 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 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 Group's financial statements:

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that the materiality principle applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented in the statement of comprehensive income based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 16 (Amendment), *Property, Plant and Equipment,* and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment,* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. On the other hand, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iv) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance with PAS 39 or PFRS 9. The Parent Company will evaluate if it will change the accounting policy for its investments in subsidiaries and associates.

(v) PFRS 10 (Amendment), *Consolidated Financial Statements,* and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e., January 1, 2016), indefinitely.

(vi) PFRS 10 (Amendment), *Consolidated Financial Statements,* PFRS 12, *Disclosure of Interests in Other Entities,* and PAS 28, *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (effective from January 1, 2016). The amendment to PFRS 10 confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. It further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate that subsidiary. Amendment to PAS 28 permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries. In addition, PFRS 12 has been amended to clarify that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12.

(vii) PFRS 11 (Amendment), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRS, except for those principles that conflict with the guidance in PFRS 11.

(viii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9. In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Group on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement for eligible debt securities; and,

- an expected loss model in determining impairment of all financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

In view of the Group's early adoption of PFRS 9, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Group and is currently conducting a comprehensive study on the potential impact of this standard prior to its mandatory adoption.

The detailed information about the Group's early adoption of PFRS 9 is disclosed in its financial statements as of and for the year ended December 31, 2014.

(ix) Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Group:

- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations.* The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

- PFRS 7 (Amendment), *Financial Instruments – Disclosures.* The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

- PAS 19 (Amendment), *Employee Benefits.* The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) Purchase method involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

(ii) Pooling of interest method is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in a separate reserve account under equity.

(b) Investments in Associates

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings of Associates under Miscellaneous Income in the Group's statement of profit or loss. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities.

Changes resulting from other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity of the Group as applicable. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

(c) Interest in Jointly Controlled Operation

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interests

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the non-controlling interests component is shown as part of the consolidated statement of changes in equity.

In the Parent Company's financial statements, investments in subsidiaries and associates are accounted for at cost, less any impairment loss (see Note 2.19).

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the Group 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 under PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 Effective from January 1, 2014

Under PFRS 9, 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. The classification and measurement of financial assets are described below.

(i) Financial Assets at Amortized Cost

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

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

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances of Due from BSP and Due from Other Banks. 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 Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2015 and 2014, the Group has not made such designation.

(ii) Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVPL at initial recognition, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVPL include government securities, corporate bonds and equity securities which are held for trading purposes or designated as at FVPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

(iii) Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

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

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Group's right to receive dividends is established in accordance with PAS 18, Revenue, unless the dividends clearly represent recovery of a part of the cost of the investment.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL 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 Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39 Effective Prior to January 1, 2014

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, HTM investments and AFS Securities. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

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

A more detailed description of the categories of financial assets relevant to the Group as of and for the year ended December 31, 2013 follows:

(i) Financial Assets at Fair Value through Profit or Loss

This category includes derivative financial instruments and financial assets that are either classified as held for trading or are designated by the Group to be carried at FVPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVPL are measured at fair value. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets and realized gains or losses arising from disposals of these instruments at FVPL category are included in Trading and Securities Gains under Other Operating Income account in the statement of profit or loss.

(ii) Loans and Receivables

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Loans and Receivables, Advances to RCBC LFC (in the Parent Company's financial statements) and certain Other Resources accounts in the statement of financial position. Cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and non-restricted balances Due from BSP and Due from Other Banks.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss is provided when there is an objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this category.

HTM investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

Should the Group sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified to AFS Securities. The tainting provision will not apply if the sales or reclassifications of HTM investments are: (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; (ii) occur after the Group has collected substantially all of the financial assets' original principal through scheduled payments or prepayments; or, (iii) are attributable to an isolated event that is beyond the control of the Group, is non-recurring and could have not been reasonably anticipated by the Group.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. As of December 31, 2013, the Group's AFS Securities include government and corporate debt securities and equity securities.

All AFS Securities are measured at fair value. Gains and losses are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity, except for interest, dividend income, impairment losses and foreign exchange difference on monetary assets, which are recognized in profit or loss. When the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserves to profit or loss and is presented as a reclassification adjustment within other comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss. Dividends on equity instruments are recognized in profit or loss when the Group's right to receive payment is established.

A financial asset is reclassified out of the FVPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS Securities category to Loans and Receivables or HTM Investments, any previous gain or loss on that asset that has been recognized as other comprehensive income is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using effective interest method.

(c) Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as a default or delinquency in interest or principal payments;
(iii) the Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(v) the disappearance of an active market for that financial asset because of financial difficulties; or,
(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) Financial Assets Carried at Amortized Cost

For financial assets classified and measured at amortized cost (including Investment Securities at Amortized Cost from January 1, 2014), the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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

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

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

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

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

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

When a loan receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of impairment losses in profit or loss.

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

(ii) Financial Assets Carried at Fair Value Prior to January 1, 2014

For AFS Securities, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS Securities under PAS 39 prior to the application of PFRS 9, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves and recognized in profit or loss.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

In the case of debt instruments classified as AFS Securities, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss.

If, in a subsequent period, the fair value of debt instruments classified as AFS Securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(iii) Financial Assets Carried at Cost Prior to January 1, 2014

If there is objective evidence of impairment for any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, the amount of impairment loss is recognized. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(d) Derecognition of Financial Assets

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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are categorized as Financial Assets at FVPL which are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value, except for the embedded derivatives in CLNs linked to ROP bonds reclassified to Loans and Receivables together with the host contract prior to January 1, 2014 (see Note 11.3). Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

Certain derivatives embedded in other financial instruments, such as credit default swaps in a CLN, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at FVPL. These embedded derivatives are measured at fair value, with changes in fair value recognized in profit or loss, except for the embedded derivatives in CLNs linked to ROP bonds which were not bifurcated from the host contracts and were reclassified to loans and receivables as permitted by the BSP for prudential reporting and the SEC for financial reporting purposes prior to January 1, 2014 [see Note 2.1(a)].

2.7 Offsetting Financial Instruments

Financial assets and 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 offset 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 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.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, 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 method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-40 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) 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, amortization and any 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.

2.9 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are neither held by the Group for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

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 its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Miscellaneous Income account in the year of retirement or disposal.

2.10 Assets Held-for-Sale and Disposal Group

Assets held-for-sale and disposal group which are presented as part of Other Resources, include real and other properties acquired through repossession, foreclosure or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous Income (Expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment (see Note 2.19). Goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account represent the right given to RSI which is engaged in stock brokerage to preserve access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in realizable value (see Note 2.19).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.12 Other Resources

Other resources excluding items classified as intangible assets and deferred tax assets pertain to other assets controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

2.13 Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, bonds payable, subordinated debt, accrued interest and other expenses, and other liabilities (except tax-related payables, post-employment defined benefit obligation and deferred income) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable, bonds payable and subordinated debt are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities represent the cumulative changes in the net fair value losses arising from the Group's currency forward transactions and interest rate swaps.

In 2014 and 2013, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. In 2015, BSP approval is no longer necessary as provided by the liberalized rules for banks and quasi-banks on dividend declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.14 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 (e.g. legal dispute or onerous contracts).

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 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 Group 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 Group 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.

The Parent Company offers monetized rewards to active cardholders in relation to its credit card business' rewards program. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on redeemable amounts.

2.15 Equity

Preferred and common stocks represent the nominal value of stocks that have been issued.

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of stocks are deducted from capital paid in excess of par, net of any related income tax benefits.

Hybrid perpetual securities reflect the net proceeds from the issuance of non-cumulative step-up callable perpetual securities.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from revaluation of AFS Securities prior to January 1, 2014;

(b) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI from January 1, 2014 upon the Group's adoption of PFRS 9;

(c) Reserves on remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest); and,

(d) Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company and a subsidiary to carry to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this account.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group and the result of the redemption of the preferred stocks of RSB's subsidiaries. This also includes the excess of cost of investment over the net identifiable assets of an acquired subsidiary under the pooling of interest method.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared as approved by the BSP.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and comprehensive income and within equity in the consolidated statements of financial position and changes in equity.

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably.

The following specific recognition criteria must also be met before a revenue or expense is recognized:

(a) Interest Income and Expenses

These are recognized in the statement of profit or loss for all financial instruments measured at amortized cost and interest-bearing financial assets at FVPL and AFS Securities using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Trading and Securities Gains (Losses)

These are recognized when the ownership of the securities is transferred to the buyer and is computed at the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains as a result of the mark-to-market valuation of investment securities classified as FVPL. Prior to January 1, 2014, in the case of AFS Securities, trading and securities gains or losses recognized in the statement of profit or loss reflect the amounts of fair value gains or losses previously recognized in other comprehensive income and reclassified to profit or loss upon disposal.

(c) Service Fees and Commissions

These are recognized as follows:

(i) *Finance charges* are recognized on credit card revolving accounts, other than those accounts classified as installment, as income as long as those outstanding account balances are not 90 days and over past due. Finance charges on installment accounts, first year and renewal membership fees are recognized as income when billed to cardholders. Purchases by cardholders which are collected on installment are recorded at the cost of the items purchased.

(ii) *Late payment fees* are billed on delinquent credit card receivable balances which are at most 179 days past due. These late payment fees are recognized as income upon collection.

(iii) *Loan syndication fees* are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement.

(iv) *Service charges and penalties* are recognized only upon collection or accrued where there is a reasonable degree of certainty as to its collectibility.

(v) *Underwriting fees and commissions* are recorded when services for underwriting, arranging or brokering has been rendered.

(d) Gains on Assets Sold

Gains on assets sold are included as part of Miscellaneous income under Other Operating Income account, which arises from the disposals of investment properties and real estate properties for sale and assets held-for-sale. This is recognized when the risks and rewards of ownership of the assets is transferred to the buyer, and when the collectibility of the entire sales price is reasonably assured.

(e) Discounts Earned

Discounts earned, net of interchange costs (included as part of Miscellaneous income under Other Operating Income account), are recognized as income upon presentation by member establishments of charges arising from RCBC Bankard and non-RCBC Bankard (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RCBC Bankard's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminal.

Costs and expenses are recognized in profit or loss upon utilization of the resources and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.21).

2.17 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. 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.

(b) Group as Lessor

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income in the statement of profit or loss.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or,

(d) there is a substantial change to the asset.

2.18 Foreign Currency Transactions and Translations

(a) Transactions and Balances

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary resources and liabilities denominated in foreign currencies are recognized in profit or loss, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVPL, are reported as part of fair value gain or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the PDSCR prevailing at the end of each reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVPL, financial assets at FVOCI and AFS Securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Resources and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a component of equity.

In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on sale.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

2.19 Impairment of Non-financial Assets

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment, investment properties, and other resources (including intangible assets) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use and goodwill are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, some assets are tested for impairment either individually or at the CGU level. Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading rights) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount 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 CGU 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 Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each CGU and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets, except for intangible assets with indefinite useful life and goodwill, 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 CGU's recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized as follows:

(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 Group, 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 Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

The liability recognized in the statement of financial position for defined benefit post-employment 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 for expected benefit payments using a discount rate derived from the interest rates of zero-coupon government bonds as published by the Philippine Dealing & Exchange Corp. (PDEx), 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and 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. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of 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 Other Interest Income or Expense account in the statement of profit or loss.

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of: (i)when it can no longer withdraw the offer of such benefits, and, (ii) 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) Bonus Plans

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) 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 included in the Accrued Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expense 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 completed.

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.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the 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 recognized by the entities under the Group are offset if they have 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.

2.23 Related Party Relationships and Transactions

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

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

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

2.24 Earnings Per Share

Basic earnings per share is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

Diluted earnings per share is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted earnings per share is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased the instruments.

2.25 Trust and Fiduciary Activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The resources, liabilities and income or loss arising thereon are excluded from these financial statements, as these are neither resources nor income of the Group.

2.26 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group'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 Group's financial statements in accordance with FRSPB 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 Policies

In the process of applying the Group'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) Evaluation of Business Model Applied in Managing Financial Instruments

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

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest 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 Group 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 Group 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, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group 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 necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(c) *Classification of Financial Assets as HTM Investments*

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments prior to the adoption of PFRS 9, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments at maturity other than for specific circumstances under the standard as discussed in Note 2.5(b)(iii), it will be required to reclassify the entire class of HTM investments to AFS Securities.

With the adoption of PFRS 9 in 2014, the HTM category and the related provisions on tainting are already omitted.

(d) *Evaluation of Impairment of AFS Securities*

The determination when an investment in AFS securities assets is other-than-temporarily impaired requires the Group to make judgment. In making this judgment with respect to the Group's outstanding AFS securities as of December 31, 2013, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy, the Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

Based on management evaluation of information and circumstances affecting the Group's AFS Securities as of December 31, 2013, the Group recognized impairment on AFS Securities amounting to P567 and P478 as of December 31, 2013 in the Group's and Parent Company's financial statements, respectively (see Note 10.4).

(e) *Distinction Between Investment Properties and Owner-occupied Properties*

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. 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 Group'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.

The Group considers each property separately in making its judgment. Such evaluation resulted in the reclassification of a significant portion of the Group's certain building properties from bank premises to Investment Properties upon the commencement of an operating lease in 2014 (see Notes 13 and 14).

(f) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements either as a lessor or a lessee. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities. As of December 31, 2015 and 2014, most of the Group's lease arrangements qualify as operating leases except for the various lease agreements of RCBC LFC which are accounted for under finance lease.

(g) *Classification and Determination of Fair Value of Acquired Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale and Disposal Group classified under Other Resources if the Group expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9 or PAS 39. At initial recognition, the Group determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Group's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(h) *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 2.14 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group's and the Parent Company's legal cases and are based upon the analysis of probable results. Although the Group does not believe that its on-going proceedings as disclosed in Note 29 will have material adverse effect on the Group's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

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 each 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) *Estimation of Impairment Losses on Loans and Receivables and Investment Securities at Amortized Cost*

The Group reviews its loans and receivables portfolio to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recognized in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Moreover, the Group holds debt securities measured at amortized cost as of December 31, 2015 and 2014. The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of the Group's and Parent Company's loans and receivables and the analysis of the allowance for impairment on such financial assets are shown in Note 11 while the information about the debt securities is disclosed in Note 10.

(b) *Determination of Fair Value Measurement for Financial Assets at FVPL, FVOCI and AFS Securities*

The Group carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 7.2). The amount of changes in fair value would differ if the Group had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss and other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation (see Note 7.2).

The carrying values of the Group's and Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Computer Software, Branch Licenses and Trading Rights*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, 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 these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Group's branch licenses and trading rights were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Group. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill and branch licenses are analyzed in Note 15. Based on management's assessment as of December 31, 2015 and 2014, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Group 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. The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2015 and 2014 are disclosed in Note 26.1.

(e) *Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, FRSPB requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(f) *Determination of Fair Value of Investment Properties*

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

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 key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) *Valuation of Post-employment Defined Benefits*

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

The amounts of post-employment benefit obligation and related income (expense), and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group'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.

A committee system is a fundamental part of the Group's process of managing risk. Four committees of the Parent Company's BOD are relevant in this context.

- The Executive Committee (EXCOM), which meets weekly, approves credit policies and decides on large counterparty credit facilities and limits. Next to the BOD, the EXCOM is the highest approving body in the Group and has the authority to pass judgment upon such matters as the BOD may entrust to it for action in between meetings.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for group capital adequacy and risk management covering credit, market and operational risks under Pillar 1 of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit Committee, which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews RPT to determine whether or not the transaction is on terms no less favourable to the Parent Company than terms available to any unconnected third party under the same or similar circumstances. On favourable review, the RPT Committee endorses transactions to the BOD for approval.

Two senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management segment, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads including the President of the major subsidiary, RSB, meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

The Parent Company established a Corporate Risk Management Services (CRISMS) Group, headed by the Chief Risk Officer, to ensure the consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the risk profile group-wide. CRISMS is independent of all risk-taking business segments and reports directly to the BOD's ROC. It participates in the CRECOL and ALCO meetings.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5) in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

It is the Group'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 and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's statement of financial position, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group 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 Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while CLNs and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Limited User Authority (Type 3). In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, FX options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps.

4.2 Liquidity Risk

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

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

The Group'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 Group's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses asset and liability maturity gap analysis.

The gap analyses as of December 31, 2015 and 2014 are presented below.

	Group					
	2015					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 25,761	P 233	P 244	P 15	P 58,135	P 84,388
Investments - net	20,331	2,246	13,571	71,683	3,733	111,564
Loans and receivables - net	26,051	43,676	63,011	117,598	48,783	299,119
Other resources - net	7,783	283	1,209	48	11,667	20,990
Total resources	79,926	46,438	78,035	189,344	122,318	516,061
Liabilities:						
Deposit liabilities	51,332	16,800	19,202	-	255,028	342,362
Bills payable	20,731	565	17,339	10,769	-	49,404
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	9,422	40	-	-	7,404	16,866
Total liabilities	81,485	17,405	70,820	25,790	262,432	457,932
Equity	-	-	-	-	58,129	58,129
Total liabilities and equity	81,485	17,405	70,820	25,790	320,561	516,061
On-book gap	(1,559)	29,033	7,215	163,554	(198,243)	-
Cumulative on-book gap	(1,559)	27,474	34,689	198,243	-	-
Contingent resources	23,434	2,527	2,353	-	-	28,314
Contingent liabilities	23,605	2,545	2,353	-	-	28,503
Off-book gap	(171)	(18)	-	-	-	(189)
Cumulative off-book gap	(171)	(189)	(189)	(189)	(189)	-
Periodic gap	**(1,730)**	**29,015**	**7,215**	**163,554**	**(198,243)**	**-**
Cumulative total gap	**(P 1,730)**	**P 27,285**	**P 34,500**	**P 198,054**	**(P 189)**	**P -**

	Group					
	2014					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 23,833	P 524	P 23	P 15	P 51,389	P 75,784
Investments - net	18,009	800	8,849	68,628	4,825	101,111
Loans and receivables - net	25,735	50,765	60,723	86,208	38,143	261,574
Other resources - net	6,709	236	1,352	94	11,045	19,436
Total resources	74,286	52,325	70,947	154,945	105,402	457,905
Liabilities:						
Deposit liabilities	47,505	20,187	16,277	2,097	229,695	315,761
Bills payable	34,763	1,051	1,126	2,859	-	39,799
Bonds payable	11,180	-	12,306	-	-	23,486
Subordinated debt	-	-	9,921	-	-	9,921
Other liabilities	8,764	37	-	-	7,006	15,807
Total liabilities	102,212	21,275	39,630	4,956	236,701	404,774
Equity	-	-	4,883	-	48,248	53,131
Total liabilities and equity	102,212	21,275	44,513	4,956	284,949	457,905
On-book gap	(27,926)	31,050	26,434	149,989	(179,547)	-
Cumulative on-book gap	(27,926)	3,124	29,558	179,547	-	-
Contingent resources	20,208	2,546	2,236	-	-	24,990
Contingent liabilities	21,635	2,744	2,236	-	-	26,615
Off-book gap	(1,427)	(198)	-	-	-	(1,625)
Cumulative off-book gap	(1,427)	(1,625)	(1,625)	(1,625)	(1,625)	-
Periodic gap	(29,353)	30,852	26,434	149,989	(179,547)	-
Cumulative total gap	(P 29,353)	P 1,499	P 27,933	P 177,922	(P 1,625)	P -

	Parent Company					
	2015					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
Resources:						
Cash and cash equivalents	P 21,285	P -	P -	P -	P 49,064	P 70,349
Investments - net	17,558	1,433	11,862	63,910	11,775	106,538
Loans and receivables - net	19,256	31,124	29,326	108,175	43,827	231,708
Other resources - net	5,857	4	623	20	7,555	14,059
Total resources	63,956	32,561	41,811	172,105	112,221	422,654
Liabilities:						
Deposit liabilities	35,911	9,185	18,802	-	200,172	264,070
Bills payable	18,228	-	16,819	10,769	-	45,816
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	11,788	-	-	-	863	12,651
Total liabilities	65,927	9,185	69,900	25,790	201,035	371,837
Equity	-	-	-	-	50,817	50,817
Total liabilities and equity	P 65,927	P 9,185	P 69,900	P 25,790	P 251,854	P 422,654

	Parent Company 2015					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
On-book gap	(P 1,971)	P 23,376	(P 28,089)	P 146,315	(P 139,631)	P -
Cumulative on-book gap	(1,971)	21,405	(6,684)	139,631	-	-
Contingent resources	23,182	2,527	2,353	-	-	28,062
Contingent liabilities	23,182	2,545	2,353	-	-	28,080
Off-book gap	-	(18)	-	-	-	(18)
Cumulative off-book gap	-	(18)	(19)	(18)	(18)	-
Periodic gap	**(1,971)**	**23,358**	**(28,089)**	**146,315**	**(139,631)**	**-**
Cumulative total gap	**(P 1,971)**	**P 21,387**	**(P 6,702)**	**P 139,613**	**(P 18)**	**P -**

	Parent 2014					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 18,920	P -	P -	P -	P 43,917	P 62,837
Investments - net	14,550	729	7,277	62,656	10,327	95,539
Loans and receivables - net	18,290	34,545	32,117	84,022	36,640	205,614
Other resources - net	6,460	7	728	63	5,682	12,940
Total resources	58,220	35,281	40,122	146,741	96,566	376,930
Liabilities:						
Deposit liabilities	31,967	13,398	16,120	2,097	184,440	248,022
Bills payable	32,897	-	1,081	2,859	-	36,837
Bonds payable	11,180	-	12,306	-	-	23,486
Subordinated debt	-	-	9,921	-	-	9,921
Other liabilities	5,272	-	-	-	6,700	11,972
Total liabilities	81,316	13,398	39,428	4,956	191,140	330,238
Equity	-	-	4,883	-	41,809	46,692
Total liabilities and equity	81,316	13,398	44,311	4,956	232,949	376,930
On-book gap	(23,096)	21,883	(4,189)	141,785	(136,883)	-
Cumulative on-book gap	(23,096)	(1,213)	(5,402)	136,383	-	-
Contingent resources	20,125	2,546	2,236	-	-	24,907
Contingent liabilities	20,838	2,744	2,236	-	-	25,818
Off-book gap	(713)	(198)	-	-	-	(911)
Cumulative off-book gap	(713)	(911)	(911)	(911)	(911)	-
Periodic gap	(23,809)	21,685	(4,189)	141,785	(136,383)	-
Cumulative total gap	(P 23,809)	(P 2,124)	(P 6,313)	P 135,472	(P 911)	P -

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company and RSB to maintain asset cover of 100% for foreign currency denominated liabilities of their respective FCDUs, of which 30% must be in liquid assets.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment its gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. The results of these liquidity stress simulations are reported monthly to the ROC.

4.3 Market Risk

The Group'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 risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. While the Parent Company and RSB use VaR as an important tool for measuring market risk, it is cognizant of its limitations, notably the following:

  - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

  - VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

  - The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

  - VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

  - In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

  - VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- Net Interest Income (NII)-at-Risk – more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Group employs a gap analysis to measure the interest rate sensitivity of its financial position (local and foreign currencies). As of a given reporting date, the interest rate gap analysis (see Note 4.3.2) measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Group's net interest income. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Group's net interest income. The rate movements assumed for measuring NII-at-Risk are consistent with a 99% confidence level with respect to historical rate volatility, assuming a one-year holding period. The Group considers the sum of NII-at-risk and the VaR of the FVPL portfolios as the Earnings-at-Risk (EaR) estimate.

- Capital-at-Risk (CaR) – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Group's economic value. The estimate, therefore, must consider the fair valuation effect of rate changes on non-trading positions. This includes both those positions with fair value changes against profit or loss, as well as those with fair value changes booked directly against equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Group sets its CaR limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group			
	At December 31	**Average**	**Maximum**	**Minimum**
2015:				
Foreign currency risk	P 15	P 7	P 17	P 2
Interest rate risk	279	245	360	167
Overall	**P 294**	**P 252**	**P 377**	**P 169**
2014:				
Foreign currency risk	P 2	P 10	P 32	P 2
Interest rate risk	282	163	384	31
Overall	P 284	P 173	P 416	P 33

	Parent Company			
	At December 31	**Average**	**Maximum**	**Minimum**
2015:				
Foreign currency risk	P 15	P 7	P 16	P 2
Interest rate risk	118	114	190	64
Overall	**P 133**	**P 121**	**P 206**	**P 66**
2014:				
Foreign currency risk	P 2	P 9	P 30	P 2
Interest rate risk	156	82	240	16
Overall	P 158	P 91	P 270	P 18

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	**Philippine Pesos**	**Total**
2015:			
Resources:			
Cash and other cash items	P 830	P 13,240	P 14,070
Due from BSP	-	50,617	50,617
Due from other banks	18,977	724	19,701
Financial assets at FVPL	2,040	3,072	5,112
Financial assets at FVOCI	23	4,185	4,208
Investment securities at amortized cost	88,134	13,747	101,881
Loans and receivables - net	42,729	256,390	299,119
Other resources	95	529	624
	P 152,828	**P 342,504**	**P 495,332**

	Group		
	Foreign Currencies	Philippine Pesos	Total
Liabilities:			
Deposit liabilities	P 73,214	P 269,148	P 342,362
Bills payable	39,141	10,263	49,404
Bonds payable	39,364	-	39,364
Subordinated debt	-	9,936	9,936
Accrued interest and other expenses	770	3,428	4,198
Other liabilities	789	7,955	8,744
	P 153,278	**P 300,730**	**P 454,008**
2014:			
Resources			
Cash and other cash items	P 957	P 12,128	P 13,085
Due from BSP	-	46,099	46,099
Due from other banks	15,832	768	16,600
Financial assets at FVPL	12,918	3,540	16,458
Financial assets at FVOCI	25	4,512	4,537
Investment securities at amortized cost	66,196	13,599	79,795
Loans and receivables - net	38,772	222,802	261,574
Other resources	144	695	839
	P 134,844	P 304,143	P 438,987
Liabilities:			
Deposit liabilities	P 70,002	P 245,759	P 315,761
Bills payable	36,832	2,967	39,799
Bonds payable	23,486	-	23,486
Subordinated debt	-	9,921	9,921
Accrued interest and other expenses	671	3,616	4,287
Other liabilities	969	6,685	7,654
	P 131,960	P 268,948	P 400,863

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2015:			
Resources:			
Cash and other cash items	P 706	P 9,421	P 10,127
Due from BSP	-	42,026	42,026
Due from other banks	17,794	402	18,196
Financial assets at FVPL	2,040	1,953	3,993
Financial assets at FVOCI	23	2,318	2,341
Investment securities at amortized cost	82,979	8,477	91,456
Loans and receivables - net	42,729	188,979	231,708
Other resources	95	384	479
	P 146,366	**P 253,960**	**P 400,326**
Liabilities:			
Deposit liabilities	P 66,720	P 197,350	P 264,070
Bills payable	39,141	6,675	45,816
Bonds payable	39,364	-	39,364
Subordinated debt	-	9,936	9,936
Accrued interest and other expenses	750	2,538	3,288
Other liabilities	788	5,119	5,907
	P 146,763	**P 221,618**	**P 368,381**
2014:			
Resources:			
Cash and other cash items	P 783	P 8,756	P 9,539
Due from BSP	-	37,763	37,763
Due from other banks	15,065	470	15,535
Financial assets at FVPL	12,829	2,233	15,062
Financial assets at FVOCI	25	2,197	2,222
Investment securities at amortized cost	61,899	8,357	70,256
Loans and receivables - net	38,714	166,900	205,614
Other resources	141	644	785
	P 129,456	P 227,320	P 356,776
Liabilities:			
Deposit liabilities	P 65,111	P 182,911	P 248,022
Bills payable	36,832	5	36,837
Bonds payable	23,486	-	23,486
Subordinated debt	-	9,921	9,921
Accrued interest and other expenses	658	2,645	3,303
Other liabilities	636	4,458	5,094
	P 126,723	P 199,940	P 326,663

4.3.2 *Interest Rate Risk*

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial resources and financial liabilities. The Group follows a policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. ALCO meets at least on a weekly basis to set rates for various financial resources and liabilities and trading products. ALCO employs interest rate gap analysis to measure the interest rate sensitivity of those financial instruments.

The interest rate gap analyses of resources and liabilities as of December 31 based on re-pricing maturities are shown below. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;
- Debt securities at amortized cost are bucketed based on their re-pricing profile;
- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,
- For resources and liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

	Group 2015					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 25,641	P 113	P 124	P 15	P 58,495	P 84,388
Investments - net	18,876	2,246	12,106	71,683	6,653	111,564
Loans and receivables - net	138,082	29,671	57,941	51,794	21,631	299,119
Other resources - net	262	34	782	659	19,253	20,990
Total resources	182,861	32,064	70,953	124,151	106,032	516,061
Liabilities:						
Deposit liabilities	86,735	14,311	18,809	-	222,507	342,362
Bills payable	47,197	570	1,637	-	-	49,404
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	472	40	-	-	16,354	16,866
Total liabilities	134,404	14,921	54,725	15,021	238,861	457,932
Equity	-	-	-	-	58,129	58,129
Total liabilities and equity	134,404	14,921	54,725	15,021	296,990	516,061
On-book gap	48,457	17,143	16,228	109,130	(190,958)	-
Cumulative on-book gap	48,457	65,600	81,828	190,958	-	-
Contingent resources	23,434	2,527	2,353	-	-	28,314
Contingent liabilities	23,605	2,545	2,353	-	-	28,503
Off-book gap	(171)	(18)	-	-	-	(189)
Cumulative off-book gap	(171)	(189)	(189)	(189)	(189)	-
Periodic gap	**48,286**	**17,125**	**16,228**	**109,130**	**(190,958)**	**-**
Cumulative total gap	**P 48,286**	**P 65,411**	**P 81,639**	**P 190,769**	**(P 189)**	**P -**

	Group 2014					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 23,638	P 404	P 23	P 15	P 51,704	P 75,784
Investments - net	5,426	845	7,474	67,895	19,471	101,111
Loans and receivables - net	123,195	36,748	39,747	48,929	12,955	261,574
Other resources – net	253	236	1,366	80	17,501	19,436
Total resources	152,512	38,233	48,610	116,919	101,631	457,905
Liabilities:						
Deposit liabilities	85,720	22,789	15,320	2,034	189,898	315,761
Bills payable	37,799	1,934	66	-	-	39,799
Bonds payable	11,180	-	12,306	-	-	23,486
Subordinated debt	-	-	9,921	-	-	9,921
Other liabilities	3,356	37	-	-	12,414	15,807
Total liabilities	138,055	24,760	37,613	2,034	202,312	404,774
Equity	-	-	4,883	-	48,248	53,131
Total liabilities and equity	138,055	24,760	42,496	2,034	250,560	457,905
On-book gap	14,457	13,473	6,114	114,885	(148,929)	-
Cumulative on-book gap	14,457	27,930	34,044	148,929	-	-
Contingent resources	20,208	2,546	2,236	-	-	24,990
Contingent liabilities	21,635	2,744	2,236	-	-	26,615
Off-book gap	(1,427)	(198)	-	-	-	(1,625)
Cumulative off-book gap	(1,427)	(1,625)	(1,625)	(1,625)	(1,625)	-
Periodic gap	13,030	13,275	6,114	114,885	(148,929)	-
Cumulative total gap	P 13,030	P 26,305	P 32,419	P 147,304	(P 1,625)	P -

	Parent Company 2015					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
Resources:						
Cash and cash equivalents	P 21,285	P -	P -	P -	P 49,064	P 70,349
Investments - net	16,103	1,433	10,397	63,910	14,695	106,538
Loans and receivables - net	132,403	20,006	13,367	49,256	16,676	231,708
Other resources - net	-	4	623	28	13,404	14,059
Total resources	169,791	21,443	24,387	113,194	93,839	422,654
Liabilities:						
Deposit liabilities	51,812	6,372	17,555	-	188,331	264,070
Bills payable	44,695	-	1,121	-	-	45,816
Bonds payable	-	-	24,343	15,021	-	39,364
Subordinated debt	-	-	9,936	-	-	9,936
Other liabilities	393	-	-	-	12,258	12,651
Total liabilities	96,900	6,372	52,955	15,021	200,589	371,837
Equity	-	-	-	-	50,817	50,817
Total liabilities and equity	96,900	6,372	52,955	15,021	251,406	422,654
On-book gap	72,891	15,071	(28,568)	98,173	(157,567)	-
Cumulative on-book gap	72,891	21,405	(6,684)	139,631	-	-
Contingent resources	23,182	2,527	2,353	-	-	28,062
Contingent liabilities	23,182	2,545	2,353	-	-	28,080
Off-book gap	-	(18)	-	-	-	(18)
Cumulative off-book gap	-	(18)	(19)	(18)	(18)	-
Periodic gap	**72,891**	**15,053**	**(28,568)**	**98,173**	**(157,567)**	**-**
Cumulative total gap	**P 72,891**	**P 87,944**	**P 59,376**	**P 157,549**	**(P 18)**	**P -**

	Parent Company 2014					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 18,917	P -	P -	P -	P 43,920	P 62,837
Investments - net	2,066	773	5,902	61,923	24,875	95,539
Loans and receivables - net	115,722	20,528	11,140	46,743	11,481	205,614
Other resources - net	4	7	742	49	12,138	12,940
Total resources	136,709	21,308	17,784	108,715	92,414	376,930
Liabilities:						
Deposits liabilities	53,201	11,022	14,935	2,034	166,830	248,022
Bills payable	35,756	1,081	-	-	-	36,837
Bonds payable	11,180	-	12,306	-	-	23,486
Subordinated debt	-	-	9,921	-	-	9,921
Other liabilities	466	-	-	-	11,506	11,972
Total liabilities	100,603	12,103	37,162	2,034	178,336	330,238
Equity	-	-	4,883	-	41,809	46,692
Total liabilities and equity	100,603	12,103	42,045	2,034	220,145	376,930
On-book gap	36,106	9,205	(24,261)	106,681	(127,731)	-
Cumulative on-book gap	36,106	45,311	21,050	127,731	-	-
Contingent resources	20,125	2,546	2,236	-	-	24,907
Contingent liabilities	20,838	2,744	2,236	-	-	25,818
Off-book gap	(713)	(198)	-	-	-	(911)
Cumulative off-book gap	(713)	(911)	(911)	(911)	(911)	-
Periodic gap	35,393	9,007	(24,261)	106,681	(127,731)	-
Cumulative total gap	P 35,393	P 44,400	P 20,139	P 126,820	(P 911)	P -

The table below summarizes the potential impact on the Group's and Parent Company's annual interest income of parallel rate shifts using the repricing profile shown in the previous pages.

	Changes in Interest Rates (in basis points)			
	(100)	**(200)**	**100**	**200**
December 31, 2015				
Group	**(P 558)**	**(P 1,116)**	**P 558**	**P 1,116**
Parent Company	**(789)**	**(1,578)**	**789**	**1,578**
December 31, 2014				
Group	(P 175)	(P 350)	P 175	P 350
Parent Company	(375)	(750)	375	750

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVPL or financial assets at FVOCI as of December 31, 2015 and 2014 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI, estimate the potential loss and determines the market and position risk requirement on equity securities at FVPL in the computation of the market and position risk requirement for all equity positions.

RCAP uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCAP uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group 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 Credit and Group Risk Division (CGRD) of CRISMS assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG) on the other hand is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter.

Impairment provisions are recognized for losses that have been incurred at the end of the reporting period. Significant changes in the economy, or in particular industry segments that represent a concentration in the Group's financial instrument portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts the Group's exposure to such credit risk, as necessary.

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 Parent Company uses its internal credit risk rating system (ICRRS) to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per BSP Manual of Regulations for Banks, i.e., Substandard, Doubtful or Loss.

Only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts which were rated BB+ to lower than CCC and accounts rated as Substandard, Doubtful and Loss. Significant amount is at least P0.5 for sales contract receivables and P15 for all other loan and receivable accounts.

In the process of applying the Parent Company's ICRRS in determining indications of impairment on individually significant items of loans and receivables, the Parent Company analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC*	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
Substandard	Loans past due for over 90 days
Doubtful	Past due clean loans previously classified as Substandard without at least 20% repayment during the succeeding 12 months
Loss	Loans considered absolutely uncollectible

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

The foregoing ICRRS is established by the Parent Company during the first quarter of 2013 in congruence with and, reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual debt issue which is still performing or current in status. The risk ratings determined by the Parent Company for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

Credit Risk Management Division (CRMD) of RSB is, in turn, tasked to measure, control and manage credit risk on the consumer loans business of RSB through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the Credit Committee and Risk Committee, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality in RSB is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

4.4.1 Exposure to Credit Risk

The carrying amount of financial resources recognized in the financial statements, net of any allowance for losses, which represents the maximum exposure to credit risk, without taking into account the value of any collateral obtained, as of December 31 follows:

	Group			
	2015		2014	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P 62**	**P -**	P 94	P -
Sub-standard	**191**	**-**	126	-
Doubtful	**99**	**-**	-	-
Loss	**389**	**-**	266	-
Gross amount	**741**	**-**	486	-
Allowance for impairment	**(491)**	**-**	(366)	-
Carrying amount	**250**	**-**	120	-
Collectively Assessed for Impairment				
Unclassified	**122,337**	**-**	111,369	-
AA to AA-	**450**	**-**	437	-
A to A-	**221**	**-**	195	-
BB+ to BB	**40,774**	**-**	30,625	-
BB- to B+	**64,204**	**-**	70,625	-
B to B-	**68,265**	**-**	44,968	-
CCC+ and below	**260**	**-**	575	-
Sub-standard	**1,354**	**-**	2,277	-
Doubtful	**553**	**-**	-	-
Loss	**674**	**-**	520	-
Gross amount	**299,092**	**-**	261,591	-
Unearned interest and discount	**(351)**	**-**	(839)	-
Allowance for impairment	**(4,492)**	**-**	(4,636)	-
Carrying amount	**294,249**	**-**	256,116	-
Unquoted debt securities classified as loans	**1,270**	**-**	1,326	-
Other receivables	**5,407**	**-**	5,144	-
Allowance for impairment	**(2,057)**	**-**	(1,455)	-
Carrying amount	**4,620**	**-**	5,015	-
Neither Past Due Nor Impaired	**-**	**105,397**	323	94,655
Total Carrying Amount	**P 299,119**	**P 105,397**	P 261,574	P 94,655

	Parent Company			
	2015		2014	
	Loans and Receivables	**Trading and Investment Securities**	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
B to B-	**P -**	**P -**	P 45	P -
Sub-standard	**191**	**-**	126	-
Doubtful	**99**	**-**	-	-
Loss	**389**	**-**	266	-
Gross amount	**679**	**-**	437	-
Allowance for impairment	**(491)**	**-**	(353)	-
Carrying amount	**188**	**-**	84	-
Collectively Assessed for Impairment				
Unclassified	**62,797**	**-**	62,035	-
BB+ to BB	**38,274**	**-**	29,242	-
BB- to B+	**60,113**	**-**	70,348	-
B to B-	**68,265**	**-**	40,909	-
CCC+ and below	**260**	**-**	575	-
Sub-standard	**52**	**-**	877	-
Doubtful	**546**	**-**	-	-
Gross amount	**230,307**	**-**	203,986	-
Unearned interest and discount	**(240)**	**-**	(191)	-
Allowance for impairment	**(3,075)**	**-**	(2,936)	-
Carrying amount	**226,992**	**-**	200,859	-
Unquoted debt securities classified as loans	**1,210**	**-**	1,266	-
Other receivables	**4,577**	**-**	4,146	-
Allowance for impairment	**(1,259)**	**-**	(1,316)	-
Carrying amount	**4,528**	**-**	4,096	-
Neither Past Due Nor Impaired	**-**	**94,909**	575	84,749
Total Carrying Amount	**P 231,708**	**P 94,909**	P 205,614	P 84,749

The credit risk for cash and cash equivalents such as Due from BSP and Due from Other Banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Advances to RCBC LFC is not subjected to impairment testing as the amount was transferred for the purpose of additional capital infusion into a consolidated subsidiary (see Note 12.1).

4.4.2 Collateral Held as Security and Other Credit Enhancements

The Group 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. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2015 and 2014.

An estimate of the fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2015 and 2014 is shown below.

	Group	
	2015	2014
Against individually impaired		
Real property	**P 129**	P 21
Chattels	**49**	49
Against classified accounts but not impaired		
Real property	**62,132**	75,428
Chattels	**7,968**	5,861
Equity securities	**4,003**	5,244
Hold-out deposits	**1,432**	1,240
Others	**545**	815
Against neither past due nor impaired		
Real property	**183,761**	113,268
Chattels	**97,434**	32,607
Hold-out deposits	**16,202**	11,484
Others	**30,895**	58,608
Total	**P 404,550**	P 304,625

	Parent Company			
	2015		2014	
Against individually impaired				
Real property	**P**	**129**	P	21
Against classified accounts but not impaired				
Real property		**55,361**		73,227
Chattels		**3,797**		4,143
Equity securities		**4,003**		5,244
Others		**232**		541
Against neither past due nor impaired				
Real property		**4,387**		-
Hold-out deposits		**16,202**		11,484
Others		**29,213**		57,591
Total	**P**	**113,324**	P	152,251

4.4.3 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency.

The Group monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 11.1.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyse name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done in the context of ROC meetings.

4.4.4 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company likewise adopted in 2015 a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors. In addition, both the Parent Company and its major subsidiary, RSB, participated in the initial run of the uniform stress testing exercise for banks initiated by the BSP.

4.5 Operational Risk

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

The Operational Risk Management Division (ORMD) under the CRISMS Group assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMD applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

- KRIs are used to monitor the operational risk profile of the Group and of each business unit, and alert management of impending problems in a timely fashion;

- Internal loss information is collected, reported, and utilized to model operational risk; and,

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to Capital Adequacy, is currently under Basic Indicator Approach (see Note 5.2). In 2014, the Parent Bank's BOD approved the acquisition of an Operational Risk System which was implemented across the Group in 2015. It is the intention of the Group to eventually migrate to the Advanced Management Approach (AMA) for Operational Risk, subject to approval by the BSP.

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Public Relations Committee chaired by the head of the Parent Company's Public and Media Relations Division.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Group is required to submit "Covered Transaction Reports" involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 within one banking day. The Group is also required to submit "Suspicious Transaction Reports" to the Anti-Money Laundering Council (AMLC) in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, AMLA requires that the Group safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Group 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 an effort to further prevent money laundering activities, the Group revised its KYC policies and guidelines in order to comply with the aforementioned Circular. 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 before an account may be opened. Likewise, the Group is required to risk profile its clients to Low, Normal, or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. 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, Group Head approval is necessary.

The Group's procedures for compliance with the AMLA are set out in its MLPP. The Group's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The AMLD regularly reports to the Anti-Money Laundering Committee, senior management committees and the BOD to disclose results of their monitoring of AMLA compliance.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

Prior to 2014, the Group was required to maintain a capital adequacy ratio (CAR) of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, RSB, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P2,000, P1,000, P300 and P300, respectively.

In computing for the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) Common Equity Tier 1 Capital includes the following:

- *(i)* paid-up common stock;
- *(ii)* common stock dividends distributable;
- *(iii)* additional paid-in capital;
- *(iv)* deposit for common stock subscription;
- *(v)* retained earnings;
- *(vi)* undivided profits;
- *(vii)* other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- *(viii)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

- *(i)* instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- *(ii)* financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- *(iii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iv)* additional paid-in capital resulting from issuance of AT1 capital;
- *(v)* deposit for subscription to AT1 instruments; and,
- *(vi)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

- *(i)* instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- *(ii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iii)* deposit for subscription of Tier 2 capital;
- *(iv)* appraisal increment reserve on bank premises, as authorized by the Monetary Board;
- *(v)* general loan loss provisions; and,
- *(vi)* minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

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

The Group's and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as of December 31, 2015 and 2014 follows:

		Group		Parent Company
2015:				
Tier 1 Capital				
CET 1	P	48,779	P	37,940
AT1		3		3
		48,782		37,943
Tier 2 Capital		12,325		11,894
Total Qualifying Capital	**P**	**61,107**	**P**	**49,837**
Total Risk – Weighted Assets	**P**	**388,804**	**P**	**318,935**
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk weighted assets		**15.72%**		**15.63%**
Tier 1 Capital Ratio		**12.55%**		**11.90%**
Total CET 1 Ratio		**12.55%**		**11.90%**
2014:				
Tier 1 Capital				
CET 1	P	40,084	P	30,573
AT1		3		3
		40,087		30,576
Tier 2 Capital		12,005		11,602
Total Qualifying Capital	P	52,092	P	42,178
Total Risk – Weighted Assets	P	338,949	P	282,546
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk weighted assets		15.37%		14.93%
Tier 1 Capital Ratio		11.83%		10.82%
Total CET 1 Ratio		11.83%		10.82%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

(b) The bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

(c) The bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a business-as-usual (BAU) and stressed scenario;

(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

(e) The bank's ICAAP document must be submitted to the BSP every January 31 of each year, beginning 2011.

The Group submitted its first ICAAP trial document in January 2009. Subsequent revisions to the trial document were made, and likewise submitted in February 2010 and May 2010 following regulatory review and the Group's own process enhancements. Complementing the ICAAP document submissions were dialogues between the BSP and the Group's representatives, the second of which transpired last November 2010 between a BSP panel chaired by the Deputy Governor for Supervision and Examination, and the members of Parent Company's EXCOM. The Group submitted its final ICAAP document within the deadline set by the BSP. Henceforth up to 2014, the annual submission of an ICAAP document is due every January 31st and every March 31st starting in 2015, as prescribed by the BSP.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Concentration is estimated using a simplified application of the HHI, and translated to risk-weighted assets as suggested by some European central bank practices. The Group plans to continuously build on this concentration assessment methodology, recognizing the inherent limitations of the HHI.

(b) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(c) *Interest Rate Risk in the Banking Book (IRRBB)* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group estimates interest rate risk in the banking book as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(d) *Compliance/Regulatory Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. The Group estimates compliance risk as the sum of regulatory fines and penalties, and forecasts this amount in relation to the level of operating expenses. The resulting figure is treated as a deduction from regulatory qualifying capital. In 2013, the Group decided to henceforth broaden its analysis of this risk to account for regulatory benchmarks and other regulations that the Group has not been in compliance with, as noted by past BSP examinations.

(e) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Public Relations Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy.

(g) *Information Technology Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of those financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 84,388**	**P 84,388**	P 75,784	P 75,784
Investment securities	**101,881**	**99,715**	79,795	78,911
Loans and receivables - net	**299,119**	**299,119**	261,574	261,574
Other resources	**624**	**624**	839	839
	486,012	**483,846**	417,992	417,108
At FVPL	**5,112**	**5,112**	16,458	16,458
At FVOCI	**4,208**	**4,208**	4,537	4,537
	P 495,332	**P 493,116**	P 438,987	P 438,103
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 342,362**	**P 342,362**	P 315,761	P 315,761
Bills payable	**49,404**	**49,404**	39,799	39,799
Bonds payable	**39,364**	**42,961**	23,486	24,954
Subordinated debt	**9,936**	**10,730**	9,921	11,042
Accrued interest and other expenses	**4,198**	**4,198**	4,287	4,287
Other liabilities	**8,479**	**8,479**	7,363	7,363
	453,743	**458,134**	400,617	403,206
Derivative financial liabilities	**265**	**265**	291	291
	P 454,008	**P 458,399**	P 400,908	P 403,497

	Parent Company			
	2015		2014	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost				
Cash and cash equivalents	**P 70,349**	**P 70,349**	P 62,837	P 62,837
Investment securities	**91,456**	**89,781**	70,256	69,651
Advances to RCBC LFC	**500**	**500**	-	-
Loans and receivables - net	**231,708**	**231,708**	205,614	205,614
Other resources	**479**	**479**	785	785
	394,492	**392,817**	339,492	338,887
At FVPL	**3,993**	**3,993**	15,062	15,062
At FVOCI	**2,341**	**2,341**	2,222	2,222
	P 400,826	**P 399,151**	P 356,776	P 356,171
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 264,070**	**P 264,070**	P 248,022	P 248,022
Bills payable	**45,816**	**45,816**	36,837	36,837
Bonds payable	**39,364**	**42,961**	23,486	24,954
Subordinated debt	**9,936**	**10,730**	9,921	11,042
Accrued interest and other expenses	**3,288**	**3,288**	3,303	3,303
Other liabilities	**5,642**	**5,642**	4,803	4,803
	368,116	**372,507**	326,372	328,961
Derivative financial liabilities	**265**	**265**	291	291
	P 368,381	**P 372,772**	P 326,663	P 329,252

Except for investment securities at amortized cost, bonds payable and subordinated debt with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group's and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Group				
			Related amounts not set off in the statements of financial position		
	Notes	**Gross amounts recognized in the statements of financial position**	**Financial instruments**	**Cash received**	**Net amount**
December 31, 2015					
Loans and receivables –					
Receivable from customers	11	**P 296,891**	**(P 17,634)**	**P -**	**P 279,257**
Other resources –					
Margin deposits	15	**42**	**-**	**(42)**	-
December 31, 2014					
Loans and receivables –					
Receivable from customers	11	P 258,688	(P 12,724)	P -	P 245,964
Other resources –					
Margin deposits	15	96	-	(96)	-

	Notes	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments	Cash received	Net amount
		Parent Company			
December 31, 2015					
Loans and receivables – Receivable from customers	11	**P 230,070**	**(P 16,202)**	**P -**	**P 213,868**
Other resources – Margin deposits	15	**42**	**-**	**(42)**	**-**
December 31, 2014					
Loans and receivables – Receivable from customers	11	P 203,417	(P 11,484)	P -	P 191,933
Other resources – Margin deposits	15	96	-	(96)	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Notes	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments	Cash received	Net amount
		Group			
December 31, 2015					
Deposit liabilities	17	**P 342,362**	**(P 17,634)**	**P -**	**P 324,728**
Other liabilities – Derivative financial liabilities	22	**265**	**-**	**(42)**	**223**
December 31, 2014					
Deposit liabilities	17	P 315,761	(P 12,724)	P -	P 303,037
Other liabilities – Derivative financial liabilities	22	291	-	(96)	195

	Notes	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments	Cash received	Net amount
		Parent Company			
December 31, 2015					
Deposit liabilities	17	**P 264,070**	**(P 16,202)**	**P -**	**P 247,868**
Other liabilities – Derivative financial liabilities	22	**265**	**-**	**(42)**	**223**
December 31, 2014					
Deposit liabilities	17	P 248,022	(P 11,484)	P -	P 236,538
Other liabilities – Derivative financial liabilities	22	291	-	(96)	195

For financial assets and liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Group and its counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits which serve as the Group's collateral enhancement for certain loans and receivables; and, (b) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2015 and 2014.

	Group			
	Level 1	Level 2	Level 3	Total
2015:				
Financial assets at FVPL:				
Government securities	P 1,093	P 163	P -	P 1,256
Corporate debt securities	522	-	-	522
Equity securities	1,229	-	367	1,596
Derivative assets	57	1,681	-	1,738
	2,901	1,844	367	5,112
Financial assets at FVOCI –				
Equity securities	1,867	176	2,165	4,208
Total Resources at Fair Value	**P 4,768**	**P 2,020**	**P 2,532**	**P 9,320**
Derivative liabilities	**P -**	**P 265**	**P -**	**P 265**
2014:				
Financial assets at FVPL:				
Government securities	P 10,421	P 271	P -	P 10,692
Corporate debt securities	2,707		-	2,707
Equity securities	1,269	-	329	1,598
Derivative assets	54	1,407	-	1,461
	14,451	1,678	329	16,458
Financial assets at FVOCI –				
Equity securities	2,314	124	2,099	4,537
Total Resources at Fair Value	P 16,755	P 1,802	P 2,428	P 20,995
Derivative liabilities	P -	P 291	P -	P 291

	Parent Company			
	Level 1	Level 2	Level 3	Total
2015:				
Financial assets at FVPL:				
Government securities	P 1,093	P 100	P -	P 1,193
Corporate debt securities	522	-	-	522
Equity securities	173	-	367	540
Derivative assets	57	1,681	-	1,738
	1,845	1,781	367	3,993
Financial assets at FVOCI –				
Equity securities	-	176	2,165	2,341
Total Resources at Fair Value	**P 1,845**	**P 1,957**	**P 2,532**	**P 6,334**
Derivative liabilities	**P -**	**P 265**	**P -**	**P 265**
2014:				
Financial assets at FVPL:				
Government securities	P 10,376	P 147	P -	P 10,523
Corporate debt securities	2,509	-	-	2,509
Equity securities	240	-	329	569
Derivative assets	54	1,407	-	1,461
	13,179	1,554	329	15,062
Financial assets at FVOCI –				
Equity securities	-	123	2,099	2,222
Total Resources at Fair Value	P 13,179	P 1,677	P 2,428	P 17,284
Derivative liabilities	P -	P 291	P -	P 291

Described below are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) *Government and Corporate Debt Securities*

The fair value of the Group's government securities and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market at the end of each of the reporting period. On the other hand, government securities with fair value categorized within Level 2 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., PDEx).

The fair value of the Group's government securities categorized under Level 2 of the hierarchy is estimated and determined based on pricing model developed by applying benchmark pricing curves which are derived using the yield of benchmark security with similar maturities (i.e., government bonds or notes). In applying this pricing methodology, the yield of the underlying securities is interpolated between the observable yields to consider any gaps in the maturities of the benchmark securities used to develop a benchmark curve.

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of December 31, 2015 and 2014 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and categorized within Level 3, their fair value is determined through the net asset value or a market-based approach valuation technique (price-to-book value method) using current market values of comparable listed entities. The price-to-book value method uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value of the Group's equity securities adjusted by a certain valuation discount. The price-to-book ratio used by the Group in the fair value measurement of its level 3 equity securities as of December 31, 2015 ranges from 0.584:1 to 1.072:1 for financial assets at FVOCI and 0.868:1 to 1.113:1 for financial assets at FVPL.

Increase (decrease) in the price-to-book ratio and net asset value would result in higher (lower) fair values, all else equal.

A reconciliation of the carrying amounts of level 3 equity securities at the beginning and end of 2015 and 2014 is shown below.

	Financial Assets at FVOCI	Financial Assets at FVPL	Total
2015:			
Balance at beginning of year	P 2,099	P 329	P 2,428
Additions	326	-	326
Fair value losses	(260)	38	(222)
Balance at end of year	**P 2,165**	**P 367**	**P 2,532**
2014:			
Balance at beginning of year	P 2,087	P 293	P 2,380
Fair value gains	12	36	48
Balance at end of year	P 2,099	P 329	P 2,428

In 2015, the Parent Company exercised its stock rights on a certain investee which resulted into additional investment amounting to P326.

(c) Derivative Assets and Liabilities

The fair value of the Group's derivative assets categorized within Level 1 is determined directly based on published price quotation available for an identical instrument in an active market at the end of each of the reporting period. On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

There were no transfers between levels of hierarchy in 2015 and 2014.

As of December 31, 2013, the Group and the Parent Company has non-marketable or unquoted equity securities invested in local private companies amounting to P1,572 and P1,563, respectively, which were classified under AFS Securities and were carried at cost as the Group was unable to reliably determine their fair value by reference to comparable instrument or by using any valuation techniques. The Group has reclassified and designated these unquoted equity securities to Financial Assets at FVOCI and Financial Assets at FVPL on January 1, 2014 upon initial adoption of PFRS 9; hence, required to be measured at fair value on a recurring basis. These investments were remeasured by the Group and the Parent Company resulting in an increase of P1,077 and P1,062, respectively, in the carrying amount of investments representing fair value gains as of the initial date of adoption. From its carrying amount at cost as of December 31, 2013, the Group has determined the fair value of these equity investments using valuation technique through discounted cash flows method; hence, categorized as Level 3 in the fair value hierarchy.

The significant assumptions used applied by the Group in determining the fair value of these equity investments include, among others, the following:

- A growth rate ranging from 4.4% to 4.9% in deriving the present value of the continuing or terminal cash flows from the investee companies; and,

- Weighted average cost of capital ranging from 7.5% to 13.9% used to determine the present value of the free cash flows for a certain forecast period covered in the cash flow projections.

7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's and Parent Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Group			
	Level 1	Level 2	Level 3	Total
2015:				
Financial Assets:				
Cash and other cash items	P 14,070	P -	P -	P 14,070
Due from BSP	50,617	-	-	50,617
Due from other banks	19,701	-	-	19,701
Investment securities at amortized cost	99,715	-	-	99,715
Loans and receivables - net	-	-	299,119	299,119
Other resources	-	-	624	624
	P 183,103	**P -**	**P 299,743**	**P 483,846**

	Group			
	Level 1	Level 2	Level 3	Total
2015:				
Financial Liabilities:				
Deposit liabilities	P 342,362	P -	P -	P 342,362
Bills payable	-	49,404	-	49,404
Bonds payable	-	42,961	-	42,961
Subordinated debt	-	10,730	-	10,730
Accrued interest, taxes and other expenses	-	-	4,198	4,198
Other liabilities	-	-	8,479	8,479
	P 342,362	**P 103,095**	**P 12,677**	**P 458,134**
2014:				
Financial Assets				
Cash and other cash items	P 13,085	P -	P -	P 13,085
Due from BSP	46,099	-	-	46,099
Due from other banks	16,600	-	-	16,600
Investment securities at amortized cost	78,911	-	-	78,911
Loans and receivables - net	-	-	261,574	261,574
Other resources	-	-	839	839
	P 154,695	P -	P 262,413	P 417,108
Financial Liabilities:				
Deposit liabilities	P 315,761	P -	P -	P 315,761
Bills payable	-	39,799	-	39,799
Bonds payable	-	24,954	-	24,954
Subordinated debt	-	11,042	-	11,042
Accrued interest, taxes and other expenses	-	-	4,287	4,287
Other liabilities	-	-	7,363	7,363
	P 315,761	P 75,795	P 11,650	P 403,206

	Parent Company			
	Level 1	Level 2	Level 3	Total
2015:				
Financial Assets:				
Cash and other cash items	P 10,127	P -	P -	P 10,127
Due from BSP	42,026	-	-	42,026
Due from other banks	18,196	-	-	18,196
Investment securities at amortized cost	89,781	-	-	89,781
Loans and receivables - net	-	-	231,708	231,708
Advances to RCBC LFC	-	-	500	500
Other resources	-	-	479	479
	P 160,130	**P -**	**P 232,687**	**P 392,817**
Financial Liabilities:				
Deposit liabilities	P 264,070	P -	P -	P 264,070
Bills payable	-	45,816	-	45,816
Bonds payable	-	42,961	-	42,961
Subordinated debt	-	10,730	-	10,730
Accrued interest, taxes and other expenses	-	-	3,288	3,288
Other liabilities	-	-	5,642	5,642
	P 264,070	**P 99,507**	**P 8,930**	**P 372,507**
2014:				
Financial Assets:				
Cash and other cash items	P 9,539	P -	P -	P 9,539
Due from BSP	37,763	-	-	37,763
Due from other banks	15,535	-	-	15,535
Investment securities at amortized cost	69,651	-	-	69,651
Loans and receivables - net	-	-	205,614	205,614
Other resources	-	-	785	785
	P 132,488	P -	P 206,399	P 338,887
Financial Liabilities:				
Deposit liabilities	P 248,022	P -	P -	P 248,022
Bills payable	-	36,837	-	36,837
Bonds payable	-	24,954	-	24,954
Subordinated debt	-	11,042	-	11,042
Accrued interest, taxes and other expenses	-	-	3,303	3,303
Other liabilities	-	-	4,803	4,803
	P 248,022	P 72,833	P 8,106	P 328,961

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Group to the BSP for clearing and reserve requirements. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost is determined by direct reference to published price quoted in an active market for traded securities.

(c) *Loans and Receivables and Advances to RCBC LFC*

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables and Advances to RCBC LFC 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.

(d) *Deposits Liabilities and Borrowings*

The estimated fair value of deposits is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The fair value of bonds payable and subordinated debt is computed based on the average of published ask and bid prices.

(e) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P7,994 and P9,946 in the Group's financial statements and P5,349 and P5,379 in the Parent Company's financial statements as of December 31, 2015 and 2014, respectively. The fair value hierarchy of these properties as of December 31, 2015 and 2014 is categorized as Level 3.

The fair values of the Group's and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

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

There has been no change in the valuation techniques during the year.

8. SEGMENT INFORMATION

8.1 Business Segments

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail Banking* – principally handles the business centers offering a wide range of financial products and services to the commercial "middle market" customers. Products offered include individual customer's deposits, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products.

(b) *Corporate Banking* – principally handles loans and other credit facilities and deposit and current accounts for corporate, small and medium enterprises and institutional customers.

(c) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(d) *Others* – consists of the Parent Company's various support groups and consolidated subsidiaries.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2015 and 2014.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2015, 2014 and 2013 follow:

	Retail Banking Group	Corporate Banking Group	Treasury Group	Others	Total
2015:					
Statement of profit or loss					
Interest income	P 7,889	P 11,280	P 2,715	(P 364)	P 21,520
Interest expense	(1,718)	(4,078)	(2,740)	2,593	(5,943)
Net interest income (expense)	6,171	7,202	(25)	2,229	15,577
Non-interest income	2,682	1,559	1,606	808	6,655
Total revenues	8,853	8,761	1,581	3,037	22,232
Non-interest expense	(6,684)	(2,166)	(442)	(8,119)	(17,411)
Profit (loss) before tax	2,169	6,595	1,139	(5,082)	4,821
Tax income	-	-	-	307	307
Net profit (loss)	**P 2,169**	**P 6,595**	**P 1,139**	**(P 4,775)**	**P 5,128**
Statement of financial position					
Total resources	**P 272,249**	**P 283,356**	**P 93,941**	**(P 133,485)**	**P 516,061**
Total liabilities	**P 272,249**	**P 283,356**	**P 93,941**	**(P 191,614)**	**P 457,932**
Other segment information					
Depreciation and amortization	**P 268**	**P 95**	**P 9**	**P 1,239**	**P 1,611**
2014:					
Statement of profit or loss					
Interest income	P 6,459	P 9,394	P 3,234	P 1,113	P 20,200
Interest expense	(1,962)	(3,275)	(3,071)	3,075	(5,233)
Net interest income	4,497	6,119	163	4,188	14,967
Non-interest income	2,358	1,378	1,677	1,689	7,102
Total revenues	6,855	7,497	1,840	5,877	22,069
Non-interest expense	(6,026)	(1,465)	(495)	(8,759)	(16,745)
Profit (loss) before tax	829	6,032	1,345	(2,882)	5,324
Tax expense	-	-	-	(914)	(914)
Net profit (loss)	P 829	P 6,032	P 1,345	(P 3,796)	P 4,410
Statement of financial position					
Total resources	P 247,416	P 198,852	P 98,490	(P 86,853)	P 457,905
Total liabilities	P 247,074	P 198,852	P 98,490	(P 139,642)	P 404,774
Other segment information					
Depreciation and amortization	P 349	P 148	P 6	P 1,074	P 1,577

	Retail Banking Group	Corporate Banking Group	Treasury Group	Others	Total
2013:					
Statement of profit or loss					
Interest income	P 6,698	P 7,662	P 3,370	P 1,094	P 18,824
Interest expense	(2,214)	(3,013)	(3,217)	2,931	(5,513)
Net interest income	4,484	4,649	153	4,025	13,311
Non-interest income	2,495	1,638	2,088	3,589	9,810
Total revenues	6,979	6,287	2,241	7,614	23,121
Non-interest expense	(6,356)	(922)	(611)	(8,639)	(16,528)
Profit (loss) before tax	623	5,365	1,630	(1,025)	6,593
Tax expense	-	-	-	(1,259)	(1,259)
Net profit (loss)	P 623	P 5,365	P 1,630	(P 2,284)	P 5,334
Statement of financial position					
Total resources	P 213,208	P 174,779	P 99,650	(P 65,768)	P 421,869
Total liabilities	P 213,208	P 174,779	P 99,650	(P 110,576)	P 377,061
Other segment information					
Depreciation and amortization	P 305	P 6	P 13	P 994	P 1,318

8.3 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2015, 2014 and 2013 follow:

	Philippines	**United States**	**Asia and Europe**	**Total**
2015:				
Statement of profit or loss				
Total income	P 28,299	P -	P 183	P 28,482
Total expenses	23,176	4	174	23,354
Net profit (loss)	**P 5,123**	**(P 4)**	**P 9**	**P 5,128**
Statement of financial position				
Total resources	**P 515,602**	**P 3**	**P 456**	**P 516,061**
Total liabilities	**P 457,599**	**P -**	**P 333**	**P 457,932**
Other segment information				
Depreciation and amortization	**P 1,609**	**P -**	**P 2**	**P 1,611**
2014:				
Statement of profit or loss				
Total income	P 27,105	P 3	P 194	P 27,302
Total expenses	22,692	17	183	22,892
Net profit (loss)	P 4,413	(P 14)	P 11	P 4,410
Statement of financial position				
Total resources	P 457,454	P 7	P 444	P 457,905
Total liabilities	P 404,448	P 8	P 318	P 404,774
Other segment information				
Depreciation and amortization	P 1,575	P -	P 2	P 1,577
2013:				
Results of operations				
Total income	P 28,422	P 65	P 147	P 28,634
Total expenses	23,089	43	168	23,300
Net profit (loss)	P 5,333	P 22	(P 21)	P 5,334
Statement of financial position				
Total resources	P 421,327	P 92	P 450	P 421,869
Total liabilities	P 376,691	P 78	P 292	P 377,061
Other segment information				
Depreciation and amortization	P 1,316	P -	P 2	P 1,318

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group		Parent Company	
	2015	2014	**2015**	2014
Cash and other cash items	**P 14,070**	P 13,085	**P 10,127**	P 9,539
Due from BSP	**50,617**	46,099	**42,026**	37,763
Due from other banks	**19,701**	16,600	**18,196**	15,535
	P 84,388	P 75,784	**P 70,349**	P 62,837

Cash consists primarily of funds in the form of Philippine currency notes and coins and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items (other than currency and coins on hand), such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Notes 17 and 27), to serve as clearing account for interbank claims and to comply with existing trust regulations. The balance of Due from BSP also includes short-term special deposit account amounting to P4,505 and P5,999 for the Group and P3,000 and P3,301 for the Parent Company at December 31, 2015 and 2014, respectively, which bear annual interest at 2.50% in 2015, and annual interest range of 2.00% to 2.50% in 2014, and 2.00% to 3.50% in 2013.

The balance of Due from Other Banks account represents regular deposits with the following:

	Group		Parent Company	
	2015	2014	**2015**	2014
Foreign banks	**P 18,295**	P 15,742	**P 17,732**	P 15,030
Local banks	**1,406**	858	**464**	505
	P 19,701	P 16,600	**P 18,196**	P 15,535

The breakdown of Due from Other Banks by currency is shown below.

	Group		Parent Company	
	2015	2014	**2015**	2014
Foreign currencies	**P 18,977**	P 15,832	**P 17,794**	P 15,065
Philippine peso	**724**	768	**402**	470
	P 19,701	P 16,600	**P 18,196**	P 15,535

Interest rates per annum on these deposits range from 0.00% to 0.30% in 2015 and 0.00% to 1.00% both in 2014 and 2013.

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group		Parent Company	
	2015	2014	**2015**	2014
Financial assets at FVPL	**P 5,112**	P 16,458	**P 3,993**	P 15,062
Financial assets at FVOCI	**4,208**	4,537	**2,341**	2,222
Investment securities at amortized cost	**101,881**	79,795	**91,456**	70,256
	P 111,201	P 100,790	**P 97,790**	P 87,540

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	Group		Parent Company	
	2015	2014	**2015**	2014
Government securities	**P 1,256**	P 10,692	**P 1,193**	P 10,523
Corporate debt securities	**522**	2,707	**522**	2,509
Equity securities	**1,596**	1,598	**540**	569
Derivative financial assets	**1,738**	1,461	**1,738**	1,461
	P 5,112	P 16,458	**P 3,993**	P 15,062

The carrying amounts of financial assets at FVPL are classified as follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Held-for-trading	**P 2,834**	P 14,428	**P 1,715**	P 13,032
Designated as at FVPL	**540**	569	**540**	569
Derivatives	**1,738**	1,461	**1,738**	1,461
	P 5,112	P 16,458	**P 3,993**	P 15,062

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2015	2014	2013
Peso denominated	**2.63% - 8.44%**	1.63% - 12.38%	1.63% - 14.38%
Foreign currency denominated	**3.45% - 9.63%**	0.05% - 10.63%	1.25% - 10.63%

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVPL.

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year. Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group's and Parent Company's financial statements are shown below.

	Notional Amount	**Fair Values**	
		Assets	**Liabilities**
2015:			
Currency swaps and forwards	P 33,269	P 392	P 179
Interest rate swaps and futures	19,111	66	84
Debt warrants	5,891	57	-
Options	4,653	8	2
Credit linked notes	-	979	-
Principal-protected notes	-	236	-
	P 62,924	**P 1,738**	**P 265**
2014:			
Currency swaps and forwards	P 22,788	P 137	P 118
Interest rate swaps and futures	16,396	60	173
Debt warrants	5,598	54	-
Options	715	7	-
Credit default swaps	89	4	-
Credit linked notes	-	971	-
Principal-protected notes	-	228	-
	P 45,586	P 1,461	P 291

The derivative liabilities amounting to P265 and P291 as of December 31, 2015 and 2014, respectively, are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The bulk of such derivative liabilities have maturity periods of less than a year.

In 2008, the Parent Company reclassified its CLNs that are linked to ROP bonds and certain CDO's, with an aggregate carrying value of P5,691 from AFS Securities to Loans and Receivables. As of December 31, 2013, the aggregate carrying value of the CLNs amounted to P2,665 (see Note 11.3). On January 1, 2014, the Parent Company reclassified its CLNs with an aggregate value of P2,665 from Loans and Receivables to Financial Assets at FVPL as a result of the initial application of PFRS 9. As of December 31, 2015 and 2014, the carrying value of the remaining CLNs amounted to P979 and P971, respectively.

The Group recognized the fair value changes in financial assets at FVPL resulting in a decrease of P107 in 2015 and increase of P614 in 2014 and P151 in 2013 in the Group's financial statements; and increase of P127 in 2015, P455 in 2014 and P167 in 2013 in the Parent Company's financial statements, which were included as part of Trading and Securities Gains account in the statements of profit or loss.

Other information about the fair value measurement of the Group's financial assets at FVPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31, 2015 and 2014 consist of:

		Group		Parent
2015:				
Quoted equity securities	P	1,686	P	-
Unquoted equity securities		2,522		2,341
	P	**4,208**	**P**	**2,341**
2014:				
Quoted equity securities	P	2,290	P	-
Unquoted equity securities		2,247		2,222
	P	4,537	P	2,222

The Group has designated the above equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVPL. Unquoted equity securities pertain to golf club shares and investments in non-marketable equity securities.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2015 and 2014 are unquoted equity securities with fair value determined using the net asset value or a market-based approach (price-to-book value method); hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

The fair value changes in FVOCI amounted to a decrease of P140 in 2015 and an increase of P118 in 2014 in the Group's financial statements and, a decrease of P220 in 2015 and an increase of P56 in 2014 in the Parent Company's financial statements, respectively, which are recognized as an adjustment in other comprehensive income and presented in the 2015 and 2014 statements of comprehensive income under items that will not be reclassified subsequently to profit or loss. In addition, as a result of RCBC Capital's disposal of certain financial asset at FVOCI, the related fair value gain of P3 in 2015 and fair value loss of P28 in 2014 previously recognized in other comprehensive income as a result of the adoption of PFRS 9 on January 1, 2014, was transferred from Revaluation Reserves to Surplus account during the year.

In 2015, 2014 and 2013, dividends on these equity securities were recognized amounting to P211, P285 and P108 by the Group and, P87, P107 and P38 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the 2015, 2014 and 2013 statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2015 and 2014 consist of:

		Group		Parent
2015:				
Government securities	P	56,093	P	48,441
Corporate debt securities		45,788		43,015
	P	**101,881**	**P**	**91,456**
2014:				
Government securities	P	56,995	P	49,481
Corporate debt securities		22,800		20,775
	P	79,795	P	70,256

The breakdown of these investment securities by currency is shown below.

		Group		Parent
2015:				
Philippine peso	P	13,747	P	8,477
Foreign currencies		88,134		82,979
	P	**101,881**	**P**	**91,456**
2014:				
Philippine peso	P	13,599	P	8,357
Foreign currencies		66,196		61,899
	P	79,795	P	70,256

Interest rates per annum on government securities and corporate debt securities range from 1.63% to 8.44% in 2015 and 1.63% to 12.38% in 2014 for peso denominated securities and 1.40% to 10.63% in 2015 and 2014 for foreign currency denominated securities, respectively.

10.4 Available-for-Sale Securities

The composition of these financial assets as of December 31, 2013 as to type of investment is shown below.

	Group	Parent Company
Government securities	P 48,137	P 40,962
Corporate debt securities	38,020	35,192
Equity securities	4,598	1,921
	90,755	78,075
Allowance for impairment	(1,343)	(1,193)
	P 89,412	P 76,882

In accordance with PFRS 9 and the Group's business model in managing financial assets, these equity and debt securities outstanding as of December 31, 2013 were reclassified to Financial Assets at FVPL, Financial Assets at FVOCI, Investment Securities at Amortized Cost and Loans and Receivables categories on January 1, 2014.

The breakdown of these investment securities by currency is shown below.

	Group	Parent Company
Philippine peso	P 18,950	P 11,070
Foreign currencies	70,462	65,812
	P 89,412	P 76,882

Interest rates per annum on government securities and corporate debt securities range from 1.70% to 7.60% in 2013.

A reconciliation of the carrying amounts of AFS securities at the beginning and end of 2013 is shown below.

	Group	Parent Company
Balance at beginning of year	P 83,687	P 69,512
Additions	99,837	99,676
Disposals	(93,511)	(92,570)
Fair value losses	(8,150)	(6,982)
Net accretion of discounts	3,633	3,419
Impairment losses	(567)	(478)
Revaluation of foreign currency investments	4,483	4,305
Balance at end of year	P 89,412	P 76,882

The changes in fair values of AFS Securities which were recognized in other comprehensive income and formed part of Revaluation Reserves account in equity in 2013 amounted to fair value losses of P8,150 and P6,982 in the Group's and Parent Company's financial statements, respectively (see Note 23.6).

Certain government securities are deposited with BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1):

	Group		**Parent Company**	
	2015	2014	**2015**	2014
Receivables from customers:				
Loans and discounts	**P 272,344**	P 234,605	**P 206,965**	P 180,307
Credit card receivables	**10,987**	10,843	**10,987**	10,843
Customers' liabilities on acceptances, import bills and trust receipts	**9,950**	9,411	**9,950**	9,411
Bills purchased	**2,420**	3,087	**2,408**	3,047
Lease contract receivables	**1,409**	1,339	**-**	-
Receivables financed	**132**	242	**-**	-
	297,242	259,527	**230,310**	203,608
Unearned discount	**(351)**	(839)	**(240)**	(191)
	296,891	258,688	**230,070**	203,417
Other receivables:				
Accrued interest receivables	**3,217**	2,846	**2,508**	2,338
Accounts receivables [see Note 28.5(a) and (b)]	**2,660**	2,509	**2,070**	1,808
Sales contract receivables	**2,058**	2,273	**675**	815
Unquoted debt securities classified as loans	**1,270**	1,326	**1,210**	1,266
Accrued rental receivables	**63**	66	**-**	-
Interbank loans receivables	**-**	323	**-**	575
	9,268	9,343	**6,463**	6,802
	306,159	268,031	**236,533**	210,219
Allowance for impairment (see Note 16)	**(7,040)**	(6,457)	**(4,825)**	(4,605)
	P 299,119	P 261,574	**P 231,708**	P 205,614

Receivables from customers portfolio earn average annual interest or range of interest as follows:

	2015	2014	2013
Loans and discounts:			
Philippine peso	**5.05%**	5.04%	5.63%
Foreign currencies	**2.95%**	2.80%	2.69%
Credit card receivables	**23.88% - 42.00%**	24.24% - 58.00%	38.40% - 42.00%
Lease contract receivables	**8.00% - 26.88%**	8.00% - 21.00%	10.55% - 22.81%
Receivable financed	**10.00% - 25.00%**	10.00% - 25.00%	10.00% - 25.00%

Included in unquoted debt securities classified as loans and receivable as of December 31, 2015 and 2014 is a 10-year note from Philippine Asset Growth One, Inc. (PAGO) with a face amount of P731 which is part of the consideration received in relation to the Parent Company's disposal in February 2013 of its non-performing assets (NPAs), consisting of non-performing loans (NPLs) with a carrying amount of P507 and non-performing investment properties with a carrying amount of P1,236 (see Note 14.1). This note receivable carries a variable interest rate of 1.0% per annum during the first five years, 7.0% per annum in the sixth to seventh year, and 7.5% per annum in the last three years. This note receivable was initially recognized in 2013 at fair value resulting in the recognition of day-one loss of P181 which is included as part of allowance for impairment.

Accounts receivables include claim from the Bureau of Internal Revenue (BIR) relating to the 20% final withholding tax on Poverty Eradication and Allevation Certificates (PEACe) bonds amounting to P199. On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. Subsequently, on March 16, 2015, the Parent Company filed a Motion for Clarification and/or Partial Reconsideration and reiterated its arguments with the Supreme Court (see Note 29.2).

Also included in Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand.

11.1 Credit Concentration, Security and Maturity Profile of Receivables from Customers

The concentration of credit of receivables from customers as to industry follows:

	Group		**Parent Company**	
	2015	2014	**2015**	2014
Real estate, renting and other related activities	**P 76,052**	P 57,784	**P 42,374**	P 34,372
Manufacturing (various industries)	**39,497**	38,658	**39,469**	38,129
Electricity, gas and water	**51,148**	38,587	**50,814**	38,306
Consumer	**37,855**	29,513	**13,211**	10,843
Other community, social and personal activities	**24,737**	25,827	**24,413**	22,323
Wholesale and retail trade	**23,993**	26,051	**22,773**	22,946
Transportation and communication	**18,425**	21,661	**18,364**	19,963
Financial intermediaries	**7,822**	8,435	**7,779**	7,452
Agriculture, fishing and forestry	**3,796**	1,979	**3,715**	1,812
Hotels and restaurants	**3,018**	2,421	**3,018**	2,412
Diversified holding companies	**2,058**	963	**2,058**	963
Mining and quarrying	**1,934**	1,389	**1,934**	1,389
Others	**6,556**	5,420	**148**	2,507
	P 296,891	P 258,688	**P 230,070**	P 203,417

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable. The Group and the Parent Company are in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

The breakdown of the receivables from customers portfolio as to secured and unsecured follows:

	Group		**Parent Company**	
	2015	2014	**2015**	2014
Secured:				
Real estate mortgage	**P 79,505**	P 64,636	**P 41,914**	P 33,148
Chattel mortgage	**23,259**	20,179	**206**	278
Hold-out deposit	**17,634**	12,724	**16,202**	11,484
Other securities	**35,212**	38,031	**33,216**	36,740
	155,610	135,570	**91,538**	81,650
Unsecured	**141,281**	123,118	**138,532**	121,767
	P 296,891	P 258,688	**P 230,070**	P 203,417

The maturity profile of the receivables from customers portfolio follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Due within one year	**P 69,727**	P 69,191	**P 45,663**	P 47,913
Due beyond one year	**227,164**	189,497	**184,407**	155,504
	P 296,891	P 258,688	**P 230,070**	P 203,417

11.2 Non-performing Loans and Impairment

Non-performing loans included in the total loan portfolio of the Group and the Parent Company as of December 31, 2015 and 2014 are presented below, net of allowance for impairment in compliance with the BSP Circular 772.

	Group		Parent Company	
	2015	2014	**2015**	2014
Gross NPLs	**P 5,427**	P 5,176	**P 2,200**	P 2,140
Allowance for impairment	**(3,122)**	(2,540)	**(1,600)**	(1,534)
	P 2,305	P 2,636	**P 600**	P 606

Based on BSP regulations, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan receivable shall be considered as non-performing when the total amount of arrearages reaches 10% of the total loan receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

A reconciliation of the allowance for impairment of loans and receivables at the beginning and end of 2015 and 2014 is shown below (see Note 16).

	Group		Parent Company	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 6,457**	P 6,131	**P 4,605**	P 4,621
Impairment losses during the year - net	**2,067**	2,255	**1,137**	1,591
Accounts written off and others – net	**(1,484)**	(1,929)	**(917)**	(1,607)
Balance at end of year	**P 7,040**	P 6,457	**P 4,825**	P 4,605

11.3 Reclassification to and from Loans and Receivables

In 2008, the Parent Company reclassified from AFS Securities to Loans and Receivables, its CLNs that are linked to ROP bonds and certain CDOs with aggregate carrying amount of P5,961 (see Note 10.1) and embedded derivatives financial liability amounting to P308 at reclassification date. The reclassified CDOs were disposed of in 2010. The effective interest rates at reclassification date ranged from 4.25% to 9.50% per annum. The unrealized fair value losses that should have been recognized by the Group and Parent Company in the financial statements under Revaluation Reserves account had the CLNs not been reclassified to Loans and Receivables is P145 as of December 31, 2013. Had the embedded derivatives not been reclassified by the Parent Company, interest income on loans and receivables would have decreased by P214 for the year ended December 31, 2013 and the additional fair value losses that would have been recognized in profit or loss would have amounted to P92. As of December 31, 2013, the carrying amounts and the corresponding fair values of the outstanding reclassified CLNs linked to ROP bonds amounted to P2,665 and P2,947, respectively.

On January 1, 2014, as a result of the initial application of PFRS 9, the Parent Company reclassified its CLNs with an aggregate carrying value of P2,665 from Loans and Receivables to Financial Assets at FVPL.

12. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

	Note	Group 2015	Group 2014
Acquisition costs of associates:			
HCPI		**P 91**	P 91
LIPC		**57**	57
YCS		**4**	5
		152	153
Accumulated equity in net earnings:			
Balance at beginning of year		**168**	184
Share in net earnings for the year	25.1	**93**	24
Share in actuarial gains on defined benefit plan		**1**	(34)
Share in fair value gains on financial assets at FVOCI		**25**	-
Cash dividends		**(76)**	(6)
Balance at end of year		**211**	168
Carrying amount		**P 363**	P 321

	Note	Parent Company 2015	Parent Company 2014
Subsidiaries:			
RSB		**P 3,190**	P 3,190
RCBC Capital		**2,231**	2,231
Rizal Microbank		**1,242**	992
RCBC LFC		**687**	687
RCBC JPL		**375**	375
RCBC Forex		**150**	150
RCBC North America		**134**	134
RCBC Telemoney		**72**	72
RCBC IFL		**58**	58
		8,139	7,889
Associates:			
NPHI		**388**	388
HCPI		**91**	91
LIPC		**57**	57
YCS		**4**	5
		540	541
Advances -			
RCBC LFC		**500**	-
		9,179	8,430
Allowance for impairment	16	**(431)**	(431)
Carrying amount		**P 8,748**	P 7,999

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company received dividends from its subsidiaries and associates amounting to P602 and P76, respectively, in 2015, P1,568 and P6, respectively, in 2014 and, P678 and P284, respectively, in 2013.

12.1 Changes in Investments in Subsidiaries

On May 25, 2015, the Parent Company's BOD approved the equity infusion into Rizal Microbank of P250 by purchasing additional 2,500,000 common shares of stock with par value of P100 each. The additional capital infusion into Rizal Microbank was approved by the BSP on September 30, 2015.

On February 23, 2015, the Parent Company's BOD approved the subscription to P500 worth of share of stock of RCBC LFC. As of December 31, 2015, RCBC LFC is yet to file with the SEC the application for increase in its authorized capital stock since the certificate of authority to amend the articles of incorporation was only secured from the BSP on January 20, 2016.

On October 18, 2013, the Parent Company's BOD approved the share purchase agreement entered into by the Group and another third party investor for the sale of the Group's ownership interest in Bankard, Inc. Bankard, Inc.'s total assets, total liabilities and net assets amounted to P1,075, P14 and P1,061, respectively, as of the date of disposal. As a consideration for the sale of the investment, the Group received cash amounting to P225 and a right over an escrow account amounting to P870 established by the buyer investor in settlement of this transaction. Gain on sale recognized related to this transaction amounting to P44 is included as part of Gain on sale of equity investments under Miscellaneous Income account in the Group's and Parent Company's 2013 statement of profit or loss (see Note 25.1). Moreover, the disposal of Bankard, Inc. resulted in the reversal and transfer directly to surplus of other reserves amounting to P233 which was recognized in prior years (see Note 23.4).

12.2 *Information About Investments in Associates*

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite having only 12.88% ownership interest.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31:

	Resources	Liabilities	Revenues	Profit
2015:				
HCPI	**P 4,914**	**P 2,097**	**P 14,276**	**P 705**
2014:				
HCPI	P 4,334	P 1,744	P 10,412	P 449

On July 31, 2013, the Parent Company's BOD approved the sale of a total of 2,130,000 common stock or 49.00% shareholdings in RCBC Land, Inc. (RLI) to PMMIC and a total of 1,701,771 common stock and 5,201,771 preferred stock or 25.00% ownership in RCBC Realty Corporation to PMMIC, HI and RLI. The total consideration received from the said disposal of shares of stock amounted to P4,547 resulting in a gain of P1,336 which was recognized and included as part of Gain on sale of equity investments under Miscellaneous Income account in the Group's 2013 statement of profit or loss (see Note 25.1).

RCBC Capital entered into an agreement with another stockholder of Roxas Holdings, Inc. (RHI) to commit and undertake to vote, as a unit, the shares of stock of RHI, which they own and hold, and to regulate the conduct of the voting and other actions between them with respect to the exercise of the voting rights. As a result of this agreement, RCBC Capital and the Parent Company were able to exercise significant influence over the operating and financial policies of RHI. Thus, notwithstanding RCBC Capital's ownership of only 4.71% and the Parent Company's ownership of only 2.40%, RHI has been considered as an associate of the Group until 2012. In 2013, the agreement with the other stockholder of RHI was terminated resulting in RCBC Capital and the Parent Company losing their significant influence in RHI. Consequently, the Group has ceased to account its investment in RHI under equity method which resulted in the derecognition of the carrying amount of the investment amounting to P413 and recognition of the same investment as part of AFS Securities at its fair value of P434, resulting in a gain from this transaction amounting to P21. Such gain is recognized as part of Others under Miscellaneous Income account in the 2013 statement of profit or loss of the Group. In addition, the Group has recognized in other comprehensive income a fair value loss of P20 arising from the remeasurement of such equity investment in RHI at fair value at the end of 2013. As a result of the initial application of PFRS 9, the Group's equity investment in RHI was reclassified to financial assets at FVPL.

13. 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 2015 and 2014 are shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2015					
Cost	P 1,297	P 3,239	P 7,946	P 1,015	P 12,638
Accumulated depreciation and amortization	-	(1,131)	(4,764)	-	(5,606)
Net carrying amount	**P 1,297**	**P 2,108**	**P 3,182**	**P 1,015**	**P 7,602**
December 31, 2014					
Cost	P 1,297	P 3,070	P 7,291	P 979	P 12,637
Accumulated depreciation and amortization	-	(1,032)	(4,574)	-	(5,606)
Net carrying amount	P 1,297	P 2,038	P 2,717	P 979	P 7,031
January 1, 2014					
Cost	P 1,587	P 4,333	P 6,026	P 915	P 12,861
Accumulated depreciation and amortization	-	(976)	(3,071)	-	(4,047)
Net carrying amount	P 1,587	P 3,357	P 2,955	P 915	P 8,814

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2015					
Cost	P 786	P 2,308	P 5,378	P 748	P 9,220
Accumulated depreciation and amortization	-	(865)	(3,380)	-	(4,245)
Net carrying amount	**P 786**	**P 1,443**	**P 1,998**	**P 748**	**P 4,975**
December 31, 2014					
Cost	P 779	P 2,172	P 4,766	P 695	P 8,412
Accumulated depreciation and amortization	-	(798)	(3,127)	-	(3,925)
Net carrying amount	P 779	P 1,374	P 1,639	P 695	P 4,487
January 1, 2014					
Cost	P 1,212	P 4,123	P 4,567	P 615	P 10,517
Accumulated depreciation and amortization	-	(737)	(2,759)	-	(3,496)
Net carrying amount	P 1,212	P 3,386	P 1,808	P 615	P 7,021

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014 is shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 1,297	P 2,038	P 2,717	P 979	P 7,031
Additions	4	143	1,515	299	1,961
Reclassification from Investment Properties (see Note 14)	12	71	-	-	83
Disposals	(16)	(9)	(220)	(26)	(271)
Depreciation and amortization charges for the year	-	(135)	(830)	(237)	(1,202)
Balance at December 31, 2015, net of accumulated depreciation and amortization	**P 1,297**	**P 2,108**	**P 3,182**	**P 1,015**	**P 7,602**
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 1,587	P 3,357	P 2,955	P 915	P 8,814
Additions	1	72	529	310	912
Reclassification to Investment Properties (see Note 14)	(259)	(1,265)	-	-	(1,524)
Disposals	(32)	(22)	(54)	(44)	(152)
Depreciation and amortization charges for the year	-	(104)	(713)	(202)	(1,019)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 1,297	P 2,038	P 2,717	P 979	P 7,031

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 779	P 1,374	P 1,639	P 695	P 4,487
Additions	1	124	1,075	211	1,411
Reclassification from Investment Properties (see Note 14)	12	71	-	-	83
Disposals	(6)	(8)	(171)	-	(185)
Depreciation and amortization charges for the year	-	(118)	(545)	(158)	(821)
Balance at December 31, 2015, net of accumulated depreciation and amortization	**P 786**	**P 1,443**	**P 1,998**	**P 748**	**P 4,975**
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 1,212	P 3,386	P 1,808	P 615	P 7,021
Additions	1	44	324	204	573
Reclassification to Investment Properties (see Note 14)	(419)	(1,985)	-	-	(2,404)
Disposals	(15)	(3)	(22)	-	(40)
Depreciation and amortization charges for the year	-	(68)	(471)	(124)	(663)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 779	P 1,374	P 1,639	P 695	P 4,487

In 2014, a portion of the RSB Corporate Center, a building owned by the Parent Company, including the land where it is located with gross amounts of P1,985 and P419, respectively, in the Parent Company's financial statements was reclassified to Investment Properties account following the commencement of operating leases for the significant portion of the property during the year, including leases to RSB. In the consolidated financial statements of the Group, a portion of the property being leased out with gross amount of P1,524 is reclassified as part of the Investment Properties account in the 2014 statement of financial position (see Note 14). In 2015, due to the change in use of some portions of the RSB Corporate Center, building and land amounting to P71 and 12, respectively, were reclassified back from Investment Properties in the Group's and Parent Company's financial statements.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2015 and 2014, the Parent Company and its bank subsidiaries have satisfactorily complied with this BSP requirement.

The gross carrying amount of the Group's and the Parent Company's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P3,825 and P3,342, respectively, as of December 31, 2015 and P3,503 and P3,026, respectively, as of December 31, 2014.

14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the end of 2015, 2014 and 2013 are shown below.

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2015						
Cost	P 1,853	P 1,901	P 3,754	P 1,006	P 2,008	P 3,014
Accumulated depreciation	-	(314)	(314)	-	(131)	(131)
Accumulated impairment (see Note 16)	(70)	-	(70)	-	-	-
Net carrying amount	**P 1,783**	**P 1,587**	**P 3,370**	**P 1,006**	**P 1,877**	**P 2,883**

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2014						
Cost	P 3,418	P 2,880	P 6,298	P 1,620	P 2,034	P 3,654
Accumulated depreciation	-	(615)	(615)	-	(82)	(82)
Accumulated impairment (see Note 16)	(319)	(9)	(328)	(146)	-	(146)
Net carrying amount	P 3,099	P 2,256	P 5,355	P 1,474	P 1,952	P 3,426
January 1, 2014						
Cost	P 3,238	P 2,649	P 5,887	P 1,373	P 1,085	P 2,458
Accumulated depreciation	-	(526)	(526)	-	(31)	(31)
Accumulated impairment (see Note 16)	(765)	(17)	(782)	(483)	-	(483)
Net carrying amount	P 2,473	P 2,106	P 4,579	P 890	P 1,054	P 1,944

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2015 and 2014 follow:

		Group		Parent Company	
	Notes	**2015**	2014	**2015**	2014
Balance at January 1, net of accumulated depreciation and impairment		**P 5,355**	P 4,579	**P 3,426**	P 1,944
Additions		**1,631**	834	**13**	18
Reclassification from (to) Bank Premises	13	**(83)**	1,524	**(83)**	2,404
Reclassification to Assets Held-for-Sale and Disposal Group	15.1	**(1,688)**	-	**(337)**	-
Disposals/transfers		**(1,445)**	(1,116)	**(84)**	(813)
Impairment losses		**(225)**	(248)	**-**	(72)
Depreciation charges for the year		**(175)**	(218)	**(52)**	(55)
Balance at December 31, net of accumulated depreciation and impairment		**P 3,370**	P 5,355	**P 2,883**	P 3,426

As of December 31, 2015 and 2014, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totalling to P1,631 and P13, respectively, in 2015 and P834 and P18, respectively, in 2014 in settlement of certain loan accounts.

In September 2014, the Parent Company sold to a third party buyer a certain non-performing investment properties consisting of land and building with a total carrying amount of P774 for a total consideration of P740, consisting of P35 cash as down payment, P40 accounts receivable and P665 sales contract receivable with no interest and payable in staggered amount for a period of four years. This disposal resulted in a loss of P34 recognized as part of Others under the Miscellaneous Expenses account in the 2014 statement of profit or loss (see Note 25.2). The sales contract receivable was initially recognized at its fair value resulting in the recognition of a day-one loss amounting to P5 which is included as part of allowance for impairment.

In February 2013, the Parent Company sold its NPAs with a total carrying amount of P1,743 including P1,236 non-performing investment properties and P507 NPLs for a total consideration of P2,288 consisting of P1,557 cash and P731 long-term debt security (see Note 11). The total gain recognized from this transaction amounted to P364 which is included as part of Gain on assets sold under Miscellaneous Income account in the 2013 statement of profit or loss (see Note 25.1).

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P281 and P162, respectively, in 2015, P333 and P18, respectively, in 2014, and P696 and P512, respectively, in 2013, which is presented as Gain on assets sold under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P310 and 330, respectively, in 2015, P237 and 192, respectively, in 2014, and P277 and P103, respectively, in 2013 [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P17 and P15, respectively, in 2015, P23 and P21, respectively, in 2014, and P54 and P1, respectively, in 2013.

14.3 Valuation and Measurement of Investment Properties

Certain investment properties of the Group were written down to their carrying amount of P362 based on management's latest evaluation of recoverable amount computed based on fair value less costs of disposal. The recoverable amount of these properties were computed based on the latest available appraisal reports adjusted for the costs of disposal of 4% of the appraised amounts and/or estimated selling price.

The fair value of investment properties as of December 31, 2015 and 2014, based on the available appraisal reports, amounted to P7,994 and P9,946, respectively, for the Group; and, P5,349 and P5,379, respectively, for the Parent Company (see Note 7.4).

15. OTHER RESOURCES

Other resources consist of the following:

		Group		Parent Company	
	Notes	**2015**	2014	**2015**	2014
Assets held-for-sale and disposal group	15.1	**P 3,263**	P 1,777	**P 1,426**	P 960
Deferred tax assets	26.1	**1,222**	84	**443**	-
Creditable withholding taxes		**1,219**	920	**1,191**	919
Branch licenses	15.5	**1,022**	57	**1,000**	-
Software – net	15.2	**936**	822	**786**	664
Goodwill	15.3	**426**	426	**-**	-
Prepaid expenses		**302**	312	**217**	199
Refundable deposits		**271**	142	**169**	140
Inter-office float items		**224**	705	**263**	691
Sundry debits		**176**	88	**148**	88
Returned checks and other cash items		**164**	488	**155**	464
Unused stationery and supplies		**158**	163	**109**	122
Foreign currency notes		**147**	113	**113**	85
Margin deposits	15.4	**42**	96	**42**	96
Miscellaneous		**686**	1,066	**147**	620
		10,258	7,259	**6,209**	5,048
Allowance for impairment	15.3, 16	**(240)**	(209)	**(8)**	(21)
		P 10,018	P 7,050	**P 6,201**	P 5,027

15.1 Assets Held-for-Sale and Disposal Group

Assets held-for-sale represents real and other properties that are approved by management to be immediately sold. These mainly include real properties, automobiles and equipment foreclosed by the Parent Company, RSB and RCBC LFC in settlement of loans.

In 2015, RSB classified portion of its Investment properties amounting to P1,351 as assets held-for-sale (see Note 14) since the carrying amount of this properties will be recovered principally through a sale transaction. The properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable. The Bank expects to complete the sale transaction for these assets within 2016.

In 2013, the Parent Company entered into a joint venture agreement to develop certain investment properties (see Note 14) for the purpose of recovering the cost through the eventual sale. Management reclassified these properties amounting to P337 as assets held-for-sale. This type of joint arrangement is accounted for as a jointly controlled operation. There was no separate entity created under this joint venture agreement. The joint venture agreement stipulates that the Parent Company shall contribute parcels of land and the co-venturer shall be responsible for the planning, conceptualization, design, construction, financing and marketing of units to be constructed on the properties. The Parent Company does not have outstanding commitments over the joint venture agreement as of December 31, 2015 and 2014.

In 2009, in accordance with the letter received by RSB from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements. The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013:

(a) Goldpath
(b) Eight Hills
(c) Crescent Park
(d) Niceview
(e) Lifeway
(f) Gold Place
(g) Princeway
(h) Greatwings
(i) Top Place
(j) Crestview
(k) Best Value

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares were approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.4).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. As the Group is in the process of liquidating the operations of those SPCs, which is expected to be completed within 2016, the carrying amounts of the real properties of those SPCs subject for liquidation are accounted for under PFRS 5; hence, classified as assets held-for-sale.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2015 and 2014 is shown below.

	Group		Parent Company	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 822**	P 874	**P 664**	P 682
Additions	**348**	288	**243**	124
Amortization	**(234)**	(340)	**(121)**	(142)
Balance at end of year	**P 936**	P 822	**P 786**	P 664

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Goodwill

The goodwill recognized by the Group as of December 31, 2015 and 2014 pertains to the following:

	2015	2014
RSB	**P 268**	P 268
Rizal Microbank	**158**	158
	426	426
Allowance for impairment	**(158)**	(158)
	P 268	P 268

RSB recognized goodwill arising from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of RSB.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2015 and 2014, RSB engaged a third party consultant to perform an independent impairment testing of goodwill.

On the basis of the report of the third party consultant dated January 31, 2016 and 2015 with valuation date as of the end of 2015 and 2014, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank was fully provided with impairment in 2011.

15.4 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.5 Branch Licenses

Branch licenses represent the rights given to the Group to establish a certain number of branches in the restricted areas in the country and the excess of the total cost of investment over the allocated net assets acquired by the Parent Company from RCBC JPL.

16. ALLOWANCE FOR IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized as follows:

		Group		Parent Company	
	Notes	**2015**	2014	**2015**	2014
Balance at beginning of year					
Loans and receivables	11	**P 6,457**	P 6,131	**P 4,605**	P 4,621
Investment in subsidiaries and associates	12	**-**	-	**431**	427
Investment properties	14	**328**	782	**146**	483
Other resources	15	**209**	244	**21**	43
		6,994	8,500	**5,203**	6,767
Impairment losses during the year		**2,350**	2,509	**1,150**	1,663
Charge-offs and other adjustments during the year		**(1,994)**	(4,015)	**(1,089)**	(3,227)
		356	(1,506)	**61**	(1,564)
Balance at end of year					
Loans and receivables	11	**7,040**	6,457	**4,825**	4,605
Investment in subsidiaries and associates	12	**-**	-	**431**	431
Investment properties	14	**70**	328	**-**	146
Other resources	15	**240**	209	**8**	21
		P 7,300	P 6,994	**P 5,264**	P 5,203

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group		Parent Company	
	2015	2014	**2015**	2014
Demand	**P 44,311**	P 32,197	**P 34,963**	P 24,391
Savings	**178,197**	164,269	**153,369**	142,375
Time	**119,854**	119,295	**75,738**	81,256
	P 342,362	P 315,761	**P 264,070**	P 248,022

Included in the time deposits are the Parent Company's Long-term Negotiable Certificate of Deposits (LTNCDs) as of December 31, 2015 and 2014 as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2015	Outstanding Balance 2014
December 19, 2014	June 19, 2020	4.13%	**P 2,100**	P 2,100
November 14, 2013	May 14, 2019	3.25%	**2,860**	2,860
November 14, 2013	May 14, 2019	3.52%	**1,903**	1,838
May 7, 2012	November 7, 2017	5.25%	**1,150**	1,150
December 29, 2011	June 29, 2017	5.25%	**2,033**	2,033
December 29, 2011	June 29, 2017	5.54%	**1,674**	1,585
May 6, 2010	November 6, 2015	6.50%	**-**	2,854
May 6, 2010	November 6, 2015	6.35%	**-**	2,035
			P 11,720	P 16,455

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

The maturity profile of the deposit liabilities follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Within one year	**P 68,132**	P 67,692	**P 45,096**	P 45,365
Beyond one year but within five years	**19,202**	16,277	**18,802**	16,120
Beyond five years	**-**	2,097	**-**	2,097
Non-maturing	**255,028**	229,695	**200,172**	184,440
	P 342,362	P 315,761	**P 264,070**	P 248,022

Deposit liabilities, aside from LTNCDs, bear annual interest rates ranging from 0.15% to 1.00% in 2015, and 0.25% to 0.88% in 2014 and 2013. Deposit liabilities are stated at amounts they are to be paid which approximate the market value.

Under existing BSP regulations, non-FCDU deposit liabilities, including long-term tax exempt Negotiable Certificate of Time Deposits, of the Parent Company is subject to reserve requirement equivalent to 20% in 2015 and 2014, while RSB and Rizal Microbank are subject to reserve requirement equivalent to 8% in 2015 and 2014. Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent to 6% in 2015 and 2014. As of December 31, 2015 and 2014, the Group is in compliance with such regulatory reserve requirements.

In 2012, the BSP issued Circular No. 753 which excludes cash in vault and regular reserve deposit accounts with BSP as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P46,112 and P40,100 for the Group and P39,026 and P34,462 for the Parent Company as of December 31, 2015 and 2014, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2015	2014	**2015**	2014
Foreign banks	**P 33,965**	P 30,572	**P 33,965**	P 30,572
Local banks	**15,392**	9,155	**11,847**	6,261
Others	**47**	72	**4**	4
	P 49,404	P 39,799	**P 45,816**	P 36,837

The maturity profile of bills payable follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Within one year	**P 21,296**	P 35,814	**P 18,228**	P 32,897
Beyond one year but within five years	**17,339**	1,126	**16,819**	1,081
More than five years	**10,769**	2,859	**10,769**	2,859
	P 49,404	P 39,799	**P 45,816**	P 36,837

Borrowings from foreign and local banks, which are mainly short-term in nature, are subject to annual fixed interest rates as follows:

	2015	2014	2013
Group			
Peso denominated	**1.75%-2.00%**	0.08%-5.00%	1.35%-10.00%
Foreign currency denominated	**0.02%-2.67%**	0.08%-3.13%	0.05%-2.62%
Parent Company			
Foreign currency denominated	**0.02%-2.67%**	0.08%-3.13%	0.05%-2.62%

Only bills payable to BSP is collateralized by the assignment of certain loans. As of December 31, 2015 and 2014, there were no outstanding bills payable to BSP.

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2015	Outstanding Balance 2014
November 2, 2015	February 2, 2021	3.45%	**$ 320**	**P 15,020**	P -
January 21, 2015	January 22, 2020	4.25%	**243**	**11,398**	-
January 30, 2012	January 31, 2017	5.25%	**275**	**12,946**	12,306
February 8, 2010	February 9, 2015	6.25%	**250**	**-**	11,180
			$ 1,088	**P 39,364**	P 23,486

In November 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The Senior Notes, unless redeemed, will mature on February 2, 2021. As of December 31, 2015, the peso equivalent of this outstanding bond issue amounted to P15,020.

In January 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$243 bearing an interest of 4.25% per annum, payable semi-annually in arrears every January 21 and July 21 of each year, which commenced on July 21, 2015. The Senior Notes, unless redeemed, will mature on January 22, 2020. As of December 31, 2015, the peso equivalent of this outstanding bond issue amounted to P11,398.

In January 2012, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$275 bearing an interest of 5.25% per annum, payable semi-annually in arrears every January 18 and July 18 of each year, which commenced on July 18, 2012. The Senior Notes, unless redeemed, will mature on January 31, 2017. As of December 31, 2015 and 2014, the peso equivalent of this outstanding bond issue amounted to P12,946 and P12,306, respectively.

In February 2010, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$250 bearing an interest of 6.25% per annum, payable semi-annually in arrears every February 9 and August 9 of each year, which commenced on August 9, 2010. The Senior Notes matured on February 9, 2015. As of December 31, 2014, the peso equivalent of this outstanding bond issue amounted to P11,180.

The interest expense incurred on these bonds payable amounted to P1,262 in 2015, P1,333 in 2014, and P1,284 in P2013. The Group recognized foreign currency exchange losses in relation to these bonds payable amounting to P1,286 in 2015, P171 in 2014 and P1,759 in 2013 which are netted against Foreign exchange gains under Other Operating Income in the statements of profit or loss.

20. SUBORDINATED DEBT

20.1 Tier 2 Notes

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7 billion Tier 2 Notes. The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10 billion, are as follows:

(a) The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

(c) The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

(d) Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

(e) The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

(i) it shall reduce the claim on the notes in liquidation;
(ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
(iii) partially or fully reduce the interest payments on the notes.

The total interest expense incurred by the Group on the notes amounted to P553 in 2015 and P253 in 2014.

20.2 P4 Billion Notes

On January 26, 2009, the Parent Company's BOD approved the issuance of P4 billion unsecured subordinated notes (the "P4 billion Notes") with the following significant terms and conditions:

(a) The P4 billion Notes shall mature on May 15, 2019, provided that they are not previously redeemed.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on May 15, 2014, redeem all of the outstanding notes at redemption price equal to 100% of the face value of the P4 billion Notes together with accrued and unpaid interest thereon.

(c) The P4 billion Notes bear interest at the rate of 7.75% per annum from May 15, 2009 and shall be payable quarterly in arrears at the end of each interest period on August 15, November 15, February 15 and May 15 each year.

(d) Unless the P4 billion Notes are previously redeemed, the interest rate from May 15, 2014 to May 15, 2019 will be increased to the rate equivalent to 80% of benchmark rate as of the first day of the 21st interest period plus the step-up spread. Such stepped up interest shall be payable quarterly in arrears.

The P4 billion Notes were issued on May 15, 2009 and were fully subscribed. On December 26, 2013, the Parent Company redeemed all of the outstanding notes. The total interest expense incurred on the subordinated debt amounted to P310 for the year ended 2013.

20.3 P7 Billion Notes

On November 26, 2007, the Parent Company's BOD approved the issuance of P7 billion unsecured subordinated notes (the "P7 billion Notes") with the following significant terms and conditions:

(a) The P7 billion Notes shall mature on February 22, 2018, provided that they are not previously redeemed.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on February 22, 2013, redeem all of the outstanding notes at redemption price equal to 100% of the face value of the P7 billion Notes together with accrued and unpaid interest thereof.

(c) The P7 billion Notes bear interest at the rate of 7% per annum from February 22, 2008 and shall be payable quarterly in arrears at the end of each interest period on May 22, August 22, November 22 and February 22 each year.

(d) Unless the P7 billion Notes are previously redeemed, the interest rate from 2013 to 2018 will be reset at the equivalent of the five-year Fixed Rate Treasury Note benchmark bid yield as of February 22, 2013 multiplied by 80% plus 3.53% per annum. Such stepped-up interest shall be payable quarterly commencing 2013.

The P7 billion Notes were issued on February 22, 2008 and were fully subscribed. On February 22, 2013, the Parent Company redeemed all of the outstanding notes. The interest expense incurred on the subordinated debt amounted to P75 for the year ended December 31, 2013.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Accrued expenses	**P 3,112**	P 3,283	**P 2,342**	P 2,475
Accrued interest	**1,086**	1,004	**946**	828
Taxes payable	**255**	384	**116**	195
	P 4,453	P 4,671	**P 3,404**	**P 3,498**

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable, bonds payable and subordinated debt at the end of each reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	Group		Parent Company	
		2015	2014	**2015**	2014
Accounts payable	28.5(a), 28.5(c)	**P 6,124**	P 5,310	**P 3,951**	P 3,343
Bills purchased – contra		**1,358**	2,188	**1,346**	2,148
Manager's checks		**1,278**	1,283	**789**	905
Post-employment defined benefit obligation	24.2	**1,274**	297	**1,139**	146
Outstanding acceptances payable		**418**	388	**418**	388
Other credits		**281**	220	**193**	163
Derivative financial liabilities	10.1	**265**	291	**265**	291
Withholding taxes payable		**166**	171	**110**	127
Deposit on lease contracts		**161**	125	**-**	-
Guaranty deposits		**156**	83	**156**	83
Payment orders payable		**117**	155	**104**	65
Sundry credits		**78**	108	**78**	93
Due to BSP		**28**	19	**28**	19
Miscellaneous		**709**	498	**670**	703
		P 12,413	P 11,136	**P 9,247**	P 8,474

Accounts payable is mainly composed of debit card balances of customers, settlement billing from credit card operations and Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include Pag-ibig, SSS and PhilHealth premiums, and other amounts due to local banks.

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock are as follows:

	Number of Shares		
	2015	2014	2013
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Balance at beginning of year	**338,291**	342,082	342,082
Conversion of shares during the year	**(28,146)**	(3,791)	-
Balance at end of year	**310,145**	338,291	342,082
Common stock – P10 par value			
Authorized – 1,400,000,000 shares			
Balance at beginning of year	**1,275,659,728**	1,275,658,638	1,140,857,133
Conversion of shares during the year	**6,746**	1,090	-
Issuances during the year	**124,242,272**	-	134,801,505
Balance at end of year	**1,399,908,746**	1,275,659,728	1,275,658,638

As of December 31, 2015 and 2014, there are 780 and 782 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P33.00 per share and P48.00 per share as of December 31, 2015 and 2014, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay Life Insurance Corp.	April 2015	124,242,272

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Purchase and Reissuance of Treasury Shares and Issuance of Common Shares

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078. Also, on September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

In 2015, the Parent Company issued common shares to Cathay Life Insurance Corporation at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement;
(ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iv) entering into a shareholders agreement with PMMIC and the Parent Company.

23.3 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
November 26, 2012	0.0593	0.02	December 18, 2012	November 26, 2012	December 21, 2012	January 2, 2013
November 26, 2012	*	201.99	*	November 26, 2012	March 4, 2013	April 27, 2013
November 26, 2012	*	212.56	*	November 26, 2012	September 6, 2013	October 25, 2013
January 28, 2013	0.0578	0.02	March 21, 2013	January 28, 2013	March 4, 2013	March 26, 2013
March 25, 2013	1.0000	1,275.66	May 21, 2013	March 25, 2013	April 29, 2013	May 27, 2013
March 25, 2013	1.0000	0.34	May 21, 2013	March 25, 2013	April 29, 2013	May 27, 2013
April 29, 2013	0.0577	0.02	June 21, 2013	April 29, 2013	June 10, 2013	June 27, 2013
July 29, 2013	0.0575	0.02	September 21, 2013	July 29, 2013	September 6, 2013	September 26, 2013
October 29, 2013	0.0569	0.02	December 21, 2013	October 29, 2013	January 13, 2014	January 15, 2014
October 29, 2013	*	224.01	*	October 29, 2013	February 25, 2014	April 25, 2014
October 29, 2013	*	212.01	*	October 29, 2013	September 15, 2014	October 24, 2014
January 27, 2014	0.0562	0.02	March 21, 2014	January 27, 2014	February 25, 2014	March 27, 2014
March 31, 2014	1.0000	1,275.66	May 23, 2014	March 31, 2014	May 23, 2014	June 16, 2014
March 31, 2014	1.0000	0.34	May 23, 2014	March 31, 2014	May 23, 2014	June 16, 2014
April 28, 2014	0.0570	0.02	June 21, 2014	April 28, 2014	July 25, 2014	July 30, 2014
July 28, 2014	0.0536	0.02	September 30, 2014	July 28, 2014	September 15, 2014	October 10, 2014
October 27, 2014	0.0564	0.02	December 21, 2014	October 27, 2014	December 19, 2014	January 28, 2015
October 27, 2014	*	221.57	*	October 27, 2014	March 20, 2015	April 27, 2015
January 26, 2015	0.0564	0.02	March 21, 2015	January 26, 2015	March 20, 2015	March 27, 2015
March 30, 2015	0.6000	839.95	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
March 30, 2015	0.6000	0.19	May 13, 2015	March 30, 2015	May 13, 2015	June 8, 2015
April 27, 2015	0.0567	0.02	June 21, 2015	April 27, 2015	September 11, 2015	September 22, 2015
July 27, 2015	0.0583	0.02	September 21, 2015	July 27, 2015	September 11, 2015	September 24, 2015
November 4, 2015	0.0593	0.02	December 21, 2015	November 4, 2015	**	December 22, 2015

** Pertains to cash dividends on hybrid perpetual securities*
*** Not applicable, BSP approval not anymore required*

In 2015, the BSP, through the Monetary Board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability and that it be disclosed in the statement of changes in equity.

A portion of the Group's surplus corresponding to the undistributed profit of subsidiaries and equity in net earnings of certain associates totalling P7,073 and P6,724 as of December 31, 2015 and 2014, respectively, is not currently available for distribution as dividends.

23.4 Other Reserves

On December 23, 2013, the SPCs' BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus (see Note 15.1).

In 2008, the Parent Company's interest in Bankard, Inc.'s net assets increased to 91.69% (representing 66.58% direct ownership and 25.11% indirect ownership through RCBC Capital) as a result of additional capital infusion of P1,000 which was approved by the BSP on February 23, 2007. This change in ownership in Bankard, Inc. did not result in a change in control by the Parent Company. In accordance with the relevant accounting standards, the Parent Company's and NCI (other than RCBC Capital) stocks in Bankard, Inc.'s net assets were adjusted to reflect the changes in their respective interests. The difference between the amount of additional investment made by the Parent Company and the adjustment in the NCI's share in Bankard, Inc.'s net assets amounting to P233 was recognized directly in equity and presented as part of Other Reserves. In 2013, as a result of the disposal of the Parent Company's and RCBC Capital's ownership interest over Bankard, Inc., Other Reserves arising from the change in ownership recognized in the Group's 2013 statement of changes in equity was reversed and directly charged to Surplus (see Note 12.1).

23.5 Hybrid Perpetual Securities

On October 30, 2006, the Parent Company received the proceeds from the issuance of Non-Cumulative Step-Up Callable Perpetual Securities ("Perpetual Securities") amounting to US$98 million, net of fees and other charges. Net proceeds were used to strengthen the CAR of the Parent Company, repay certain indebtedness and enhance its financial stability and for general corporate purposes. The issuance of the Perpetual Securities was approved by the BOD on June 7, 2006.

The Perpetual Securities represent US$100 million, 9.875%, non-cumulative step-up callable perpetual securities issued pursuant to a trust deed dated October 27, 2006 between the Parent Company and Bank of New York – London Branch, each with a liquidation preference of US$1 thousand per US$1 thousand in principal amount of the Perpetual Securities. The actual listing and quotation of the Perpetual Securities in a minimum board lot size of US$1 hundred in the Singapore Exchange Securities Trading Limited ("SGX-ST") was done on November 1, 2006. The Perpetual Securities were issued pursuant to BSP Circular No. 503 dated December 22, 2005 allowing the issuance of perpetual, non-cumulative securities up to US$125 million which are eligible to qualify as Hybrid Tier 1 Capital.

The significant terms and conditions of the issuance of the Perpetual Securities, among others, follow:

(a) Interest (effectively dividends) will be paid from and including October 27, 2006 (the "issue date") to (but excluding) October 27, 2016 (the "First Optional Redemption Date") at a rate of 9.875% per annum payable semi-annually in arrears from April 27, 2007 and, thereafter at a rate reset and payable quarterly in arrears, of 7.02% per annum above the then prevailing LIBOR for three-month US dollar deposits;

(b) Except as described below, interest (dividends) will be payable on April 27 and October 27 in each year, commencing on April 27, 2007 and ending on the First Optional Redemption Date, and thereafter (subject to adjustment for days which are not business days) on January 27, April 27, July 27, October 27 in each year commencing on January 27, 2016;

(c) The Parent Company may, in its absolute discretion, elect not to make any interest (dividends) payment in whole or in part if the Parent Company has not paid or declared a dividend on its common stocks in the preceding financial year; or determines that no dividend is to be paid on such stocks in the current financial year. Actual payments of interest (dividends) on the hybrid perpetual securities are shown in Note 23.3;

(d) The rights and claims of the holders will be subordinated to the claims of all senior creditors (as defined in the conditions) and the holders of any priority preference stocks (as defined in the conditions), in that payments in respect of the securities are conditional upon the Parent Company being solvent at the time of payment and in that no payments shall be due except to the extent the Parent Company could make such payments and still be solvent immediately thereafter;

(e) The Perpetual Securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any party related to the Parent Company or the Philippine Deposit Insurance Corporation and they may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates;

(f) The Parent Company undertakes that, if on any Interest Payment Date, payment of all Interest Payments scheduled to be made on such date is not made in full, it shall not declare or pay any distribution or dividend or make any other payment on, any junior share capital or any parity security, and it shall not redeem, repurchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities, other than in the case of any partial interest payment, pro rata payments on, or redemptions of, parity securities the dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity as aforesaid unless and until a payment is made to the holders in an amount equal to the unpaid amount (if any) of interest payments in respect of interest periods in the twelve months including and immediately preceding the date such interest payment was due and the BSP does not otherwise object; and,

(g) The Parent Company, at its option, may redeem the Perpetual Securities at the fixed or final redemption date although the Parent Company may, having given not less than 30 nor more than 60 days' notice to the Trustee, the Registrar, the Principal Paying Agent and the Holders, redeem all (but not some only) of the securities: (i) on the first optional redemption date; and (ii) on each interest payment date thereafter, at an amount equal to the liquidation preference plus accrued interest.

On March 30, 2015, the Parent Company's BOD approved the redemption of its hybrid perpetual securities at a premium amounting to P723 million.

23.6 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account are shown below.

	Group			
	Revaluation of Financial Assets at FVOCI	**Accumulated Translation Adjustment on Foreign Operations**	**Actuarial Gains (Losses) on Defined Benefit Plan**	**Total**
Balance at January 1, 2015,	P 835	P 71	(P 224)	P 682
Fair value losses on financial assets at FVOCI	(143)	-	-	(143)
Translation adjustments on foreign operation	-	(10)	-	(10)
Actuarial losses on defined benefit plan	-	-	(1,044)	(1,044)
Other comprehensive loss	(143)	(10)	(1,044)	(1,197)
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2015	**P 689**	**P 61**	**(P 1,268)**	**(P 518)**
Balance at January 1, 2014, as restated	P 689	P 76	(P 225)	P 540
Fair value gains on financial assets at FVOCI	118	-	118	-
Translation adjustments on foreign operation	-	(5)	-	(5)
Actuarial gains on defined benefit plan	-	-	1	1
Other comprehensive income (loss)	118	(5)	1	114
Transfer from fair value losses on financial asset at FVOCI to Surplus	28	-	-	28
Balance as of December 31, 2014	P 835	P 71	(P 224)	P 682
Balance at January 1, 2013, as restated	P 3,145	P 72	P 548	P 3,765
Fair value losses on AFS Securities	(8,150)	-	-	(8,150)
Translation adjustments on foreign operation	-	4	-	4
Actuarial losses on defined benefit plan	-	-	(773)	(773)
Other comprehensive income (loss)	(8,150)	4	(773)	(8,919)
Balance as of Dzecember 31, 2013	(P 8,150)	P 76	(P 225)	(P 5,154)

	Parent Company		
	Revaluation of Financial Assets at FVOCI	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance at January 1, 2015,	P 824	(P 75)	P 749
Fair value losses on financial assets at FVOCI	(220)	-	(220)
Actuarial losses on defined benefit plan	-	(987)	(987)
Other comprehensive loss	(220)	(987)	(1,207)
Balance as of December 31, 2015	**P 604**	**(P 1,062)**	**(P 458)**
Balance at January 1, 2014, as restated	P 768	(P 155)	P 613
Fair value gains on financial assets at FVOCI	56	-	56
Actuarial gains on defined benefit plan	-	80	80
Other comprehensive income	56	80	136
Balance as of December 31, 2014	P 824	(P 75)	P 749
Balance at January 1, 2013	P 2,648	P 600	P 3,248
Fair value losses on AFS Securities	(6,982)	-	(6,982)
Actuarial losses on defined benefit plan	-	(755)	(755)
Other comprehensive loss	(6,982)	(755)	(7,737)
Balance as of December 31, 2013	(P 4,334)	(P 155)	(P 4,489)

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group		
	2015	2014	2013
Short-term employee benefits	**P 4,370**	P 3,731	P 3,585
Post-employment defined benefits	**361**	333	301
	P 4,731	P 4,064	P 3,886

	Parent Company		
	2015	2014	2013
Short-term employee benefits	**P 2,924**	P 2,494	P 2,409
Post-employment defined benefits	**266**	254	230
	P 3,190	P 2,748	P 2,639

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's and RSB's Trust Departments, covering all regular full-time employees. The Parent Company's and RSB's Trust Departments manage the fund in coordination with the Parent Company's Retirement Committee, Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to 1.25 to 2 months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2015 and 2014.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Fair value of plan assets	**P 3,585**	P 4,228	**P 2,898**	P 3,667
Present value of the obligatio	**4,859**	4,525	**4,037**	3,813
Deficiency of plan assets	**(P 1,274)**	(P 297)	**(P 1,139)**	(P 146)

The Group's and Parent Company's post-employment defined benefit obligation as of December 31, 2015 and 2014 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the fair value of plan assets are presented below.

	Group		Parent Company	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 4,228**	P 4,215	**P 3,667**	P 3,653
Interest income	**278**	192	**176**	162
Return on plan assets (excluding amounts included in net interest)	**(1,013)**	35	**(998)**	43
Contributions paid into the plan	**378**	17	**265**	-
Benefits paid by the plan	**(286)**	(231)	**(212)**	(191)
Balance at end of year	**P 3,585**	P 4,228	**P 2,898**	P 3,667

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2015	2014	**2015**	2014
Balance at beginning of year	**P 4,525**	P 4,226	**P 3,813**	P 3,620
Current service cost	**361**	333	**266**	254
Interest expense	**227**	196	**181**	166
Remeasurements – actuarial losses (gains) arising from changes in:				
Financial assumptions	**(73)**	(5)	**(68)**	(32)
Demographic assumptions	**(22)**	-	**-**	-
Experience adjustments	**127**	6	**57**	(4)
Benefits paid by the plan	**(286)**	(231)	**(212)**	(191)
Balance at end of year	**P 4,859**	P 4,525	**P 4,037**	P 3,813

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	Group		Parent Company	
	2015	2014	**2015**	2014
Cash and cash equivalents	**P 379**	P 155	**P 153**	P 20
Debt securities:				
Government bonds	**84**	119	**11**	35
Corporate debt securities	**269**	210	**51**	53
Equity securities:				
Quoted equity securities				
Financial intermediaries	**1,863**	2,716	**1,863**	2,716
Transportation and communication	**315**	408	**290**	408
Electricity, gas and water	**112**	-	**97**	-
Diversified holding companies	**19**	18	**19**	18
Others	**113**	101	**3**	3
Unquoted long-term equity investments	**330**	330	**330**	330
UITF	**17**	112	**74**	78
Loans and receivables	**77**	36	**1**	1
Investment properties	**1**	6	**6**	6
Other investments	**6**	18	**-**	-
	3,585	4,229	**2,898**	3,668
Liabilities	**-**	(1)	**-**	(1)
	P 3,585	P 4,228	**P 2,898**	P 3,667

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The returns on plan assets are as follows:

	Group		Parent Company	
	2015	2014	**2015**	2014
Interest income	**P 278**	P 192	**P 176**	P 162
Actuarial gains (losses)	**(979)**	35	**(998)**	43
Actual returns	**(P 701)**	P 227	**(P 824)**	P 205

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

	Group		
	2015	2014	2013
Reported in profit or loss:			
Current service cost	**P 361**	P 333	P 293
Net interest expense (income)	**(51)**	4	(419)
Effect of curtailment	**-**	-	8
	P 310	P 337	P 252
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 73**	P 5	(P 123)
Demographic assumptions	**22**	-	3
Experience adjustments	**(127)**	(6)	(52)
Effect of asset ceiling test	**-**	1	45
Share in actuarial losses of associates	**1**	(34)	-
Return on plan assets (excluding amounts included in net interest)	**(1,013)**	35	(646)
	(P 1,044)	P 1	(P 773)

	Parent Company		
	2015	2014	2013
Reported in profit or loss:			
Current service costs	**P 266**	P 254	P 221
Net interest expense (income)	**5**	4	(55)
Effect of curtailment	**-**	-	9
	P 271	P 258	P 175
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	**P 68**	P 32	(P 171)
Experience adjustments	**(57)**	4	(105)
Changes in effect of asset ceiling	**-**	2	164
Return on plan assets (excluding amounts included in net interest)	**(998)**	42	(643)
	(P 987)	P 80	(P 755)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense (income) is presented as part of Interest Expense – Bills Payable and Other Borrowings (Interest Income – Others) in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2015	2014	2013
Group			
Discount rates	**5.05% - 5.15%**	4.52% - 4.98%	4.09% - 5.47%
Expected rate of salary increases	**5.00% - 10.00%**	5.00% - 8.00%	5.00% - 8.00%
Parent Company			
Discount rates	**5.15%**	4.76%	4.57%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back 6 years for 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 zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Rate Risks*

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 plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(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, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described 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 of December 31, 2015 and 2014:

	Group		
	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2015:			
Discount rate	**+/- 1%**	**(P 311)**	**P 359**
Salary growth rate	**+/- 1%**	**322**	**(285)**
2014:			
Discount rate	+/- 1%	(P 241)	P 277
Salary growth rate	+/- 1%	243	(217)

	Parent Company		
	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2015:			
Discount rate	**+/- 1%**	**(P 161)**	**P 181**
Salary growth rate	**+/- 1%**	**152**	**(138)**
2014:			
Discount rate	+/- 1%	(P 161)	P 181
Salary growth rate	+/- 1%	152	(139)

The sensitivity analysis 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 sensitivity analysis, the present value of the defined benefit obligation at the end of each reporting period has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2015 and 2014 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P1,274 and P1,139 for the Group and Parent Company based on the latest funding actuarial valuations in 2015.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		**Parent Company**	
	2015	2014	**2015**	2014
Less than one year	**P 204**	161	**P 162**	P 148
More than one year to five years	**773**	813	**770**	674
More than five years to 10 years	**1,698**	1,696	**1,598**	1,469
	P 2,675	P 2,670	**P 2,530**	P 2,291

The weighted average duration of the defined benefit obligation at the end of the reporting period is 6 to 18.5 years for the Group and 6.1 years for the Parent Company.

The Group and Parent Company expects to contribute P413 and P82, respectively, to the plan in 2016.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	**Group**		
		2015	2014	2013
Interchange fees		**P 365**	P 324	P 296
Rentals	14.2	**355**	243	285
Gains on assets sold	14.1	**281**	333	696
Dividend income	10.2	**237**	285	182
Recoveries from written-off assets		**169**	137	291
Share in net earnings of associates	12	**93**	24	243
Discounts earned		**58**	112	130
Gain on sale of equity investments	12	**-**	-	1,380
Others	12	**327**	268	741
		P 1,885	P 1,726	P 4,244

	Notes	**Parent Company**		
		2015	2014	2013
Dividend income	10.2, 12	**P 766**	P 1,682	P 1,000
Rentals	14.2 28.5(a)	**375**	197	125
Interchange fees		**364**	324	296
Gains on assets sold	14.1	**162**	18	512
Discounts earned		**58**	112	106
Gain on sale of equity investments	12	**-**	-	1,787
Others	12	**329**	335	382
		P 2,054	P 2,668	P 4,208

25.2 Miscellaneous Expenses

	Note	Group 2015	Group 2014	Group 2013
Insurance		**P 656**	P 614	P 516
Credit card-related expenses		**600**	524	559
Management and other professional fees		**529**	444	475
Communication and information services		**443**	463	447
Transportation and travel		**295**	404	377
Advertising and publicity		**289**	269	327
Litigation/assets acquired expenses		**247**	222	430
Banking fees		**190**	176	176
Stationery and office supplies		**129**	127	165
Other outside services		**112**	104	114
Representation and entertainment		**94**	152	157
Donations and charitable contributions		**61**	55	69
Commissions		**45**	27	29
Membership fees		**19**	18	22
Others	14.1	**966**	1,005	1,309
		P 4,675	P 4,604	P 5,172

	Note	Parent Company 2015	Parent Company 2014	Parent Company 2013
Credit card related expenses		**P 584**	P 511	P 534
Service processing fees	28.5(c)	**527**	479	460
Insurance		**511**	484	408
Communication and information services		**258**	288	279
Advertising and publicity		**191**	182	227
Management and other professional fees		**175**	220	218
Transportation and travel		**159**	238	263
Banking fees		**141**	133	133
Other outside services		**100**	92	98
Stationery and office supplies		**81**	85	121
Litigation/assets acquired expense		**81**	73	142
Donations and charitable contributions		**56**	50	64
Representation and entertainment		**41**	72	82
Membership fees		**15**	14	18
Others		**477**	562	896
		P 3,397	P 3,483	P 3,943

The Group's other expenses is composed of freight, employee activities expenses, fines and penalties, and seasonal giveaways. The Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P53 and P44 in 2015 and 2014, respectively (see Note 28.5).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST). In 2003, the Parent Company and its financial intermediary subsidiaries were subjected to VAT instead of GRT. However, effective January 1, 2004 as prescribed under RA No. 9238, the Parent Company and certain subsidiaries were again subjected to GRT instead of VAT. RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2015, 2014 and 2013, the Group opted to continue claiming itemized deductions.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2015	2014	2013
Current tax expense:			
Final tax	**P 326**	P 434	P 932
RCIT	**459**	382	203
Excess MCIT over RCIT	**46**	122	147
	831	938	1,282
Application of MCIT	**-**	(1)	-
	831	937	1,282
Deferred tax income relating to NOLCO and origination and reversal of temporary differences	**(1,138)**	(23)	(23)
	(P 307)	P 914	P 1,259

	Parent Company		
	2015	2014	2013
Current tax expense:			
Final tax	**P 254**	P 391	P 812
RCIT	**161**	77	11
Excess MCIT over RCIT	**46**	120	144
	461	588	967
Deferred tax income relating to NOLCO	**(443)**	-	-
	P 18	P 588	P 967

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

	Group		
	2015	2014	2013
Tax on pretax profit at 30%	**P 1,446**	P 1,597	P 1,978
Adjustments for income subjected to lower income tax rates	**(142)**	(174)	(245)
Tax effects of:			
Recognition of previously unrecognized deferred tax asset	**(992)**	-	-
Non-taxable income	**(539)**	(967)	(1,005)
Utilization of NOLCO	**(443)**	-	(1)
Non-deductible expenses	**356**	202	298
Unrecognized temporary differences	**129**	456	325
FCDU income	**(125)**	(214)	(93)
Utilization of MCIT	**-**	(1)	-
Others	**3**	15	2
Tax expense (income)	**(P 307)**	P 914	P 1,259

	Parent Company		
	2015	2014	2013
Tax on pretax profit at 30%	**P 1,286**	P 1,520	P 1,725
Adjustments for income subjected to lower income tax rates	**(108)**	(118)	(218)
Tax effects of:			
Recognition of previously unrecognized deferred tax asset	**(443)**	-	-
Utilization of NOLCO	**(443)**	-	-
Non-deductible expenses	**423**	130	121
Non-taxable income	**(290)**	(644)	(944)
Unrecognized temporary differences	**(282)**	(86)	376
FCDU income	**(125)**	(214)	(93)
Tax expense	**P 18**	P 588	P 967

The Parent Company recognized deferred tax asset amounting to P443 on a portion of its unutilized NOLCO amounting to P1,476 which can be utilized until 2016. The net deferred tax assets of the Group recognized and presented as part of Other Resources account in the statements of financial position as of December 31, 2015 and 2014 relate to the operations of the Parent Company and certain subsidiaries as shown below (see Note 15).

		2015		2014
Allowance for impairment	**P**	**652**	P	64
NOLCO		**443**		-
Post-employment defined benefits		**21**		18
Rent expense differential		**1**		1
Unamortized past service cost		**-**		2
Others		**5**		(1)
	P	**1,222**	P	84

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets of the Group relate to the following:

	Group				**Parent Company**			
		2015		2014		**2015**		2014
Allowance for impairment	**P**	**1,538**	P	2,034	**P**	**1,450**	P	1,432
Excess MCIT		**314**		470		**310**		405
NOLCO		**137**		1,053		**104**		990
Unamortized past service cost		**45**		169		**25**		176
Advance rental		**2**		2		**2**		2
	P	**2,036**	P	3,728	**P**	**1,891**	P	3,005

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, particularly those relating to its foreign subsidiaries, were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The breakdown of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	**Amount**	**Utilized**	**Expired**	**Balance**	**Expiry Year**
2014	P 67	P -	P -	P 67	2017
2013	3,341	(1,476)	-	1,865	2016
2012	102	(39)	(63)	-	2015
	P 3,510	**(P 1,515)**	**(P 63)**	**P 1,932**	

The breakdown of the Parent Company's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	**Amount**	**Utilized**	**Expired**	**Balance**	**Expiry Year**
2013	P 3,299	P 1,476	P -	P 1,823	2016

As of December 31, 2015, the Group and Parent Company have MCIT of P314 and P310, respectively, that can be applied against RCIT for the next three consecutive years after the MCIT was incurred.

The breakdown of the excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	**Amount**	**Utilized**	**Expired**	**Balance**	**Expiry Year**
2015	P 46	P -	P -	P 46	2018
2014	122	-	-	122	2017
2013	147	(1)	-	146	2016
2012	202	-	(202)	-	2015
	P 517	**(P 1)**	**(P 202)**	**P 314**	

The breakdown of the Parent Company's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2015	P 46	P -	P -	P 46	2018
2014	120	-	-	120	2017
2013	144	-	-	144	2016
2012	141	-	(141)	-	2015
	P 451	P -	(P 141)	P 310	

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with FRSPB; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P86,963 and P82,552 as of December 31, 2015 and 2014, respectively. The Parent Company's total trust resources amounted to P65,841 and P66,156 as of December 31, 2015 and 2014, respectively (see Note 29.1).

In connection with the trust operations of the Parent Company and RSB, time deposit placements and government securities with a total face value of P930 (Group) and P685 (Parent Company); and P872 (Group) and P702 (Parent Company) as of December 31, 2015 and 2014, respectively, are deposited with the BSP in compliance with existing trust regulations. The time deposit placements and government securities are presented in the statements of financial position under Due from BSP (see Note 9) and Trading and Investment Securities (see Note 10), respectively.

In compliance with existing BSP regulations, 10% of the Parent Company's and RSB's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's and RSB's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the statements of changes in equity.

The Group and the Parent Company transferred from Surplus to Reserve for Trust Business P22 and P15, respectively, in 2015 and P18 and P14, respectively, in 2014.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company (PMMIC), subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2015 and 2014 is presented below.

		Group			
		2015		2014	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Stockholders					
Loans and receivables	28.1	**(P 537)**	**P 426**	(P 110)	P 963
Deposit liabilities	28.2	**1,545**	**3,018**	115	1,473
Issuance of shares of stock	23.2	**7,729**	**-**	-	-
Interest income from loans and receivables	28.1	**29**	**-**	52	-
Interest expense on deposits	28.2	**5**	**-**	9	-
Associates					
Deposit liabilities	28.2	**(60)**	**65**	(146)	125
Interest expense on deposits	28.2	**3**	**-**	-	-
Dividend income	12	**76**	**-**	6	-
Related Parties Under Common Ownership					
Loans and receivables	28.1	**(1,966)**	**541**	(544)	2,507
Deposit liabilities	28.2	**(596)**	**2,282**	1,007	2,878

Related Party Category	Notes	Group 2015 Amount of Transaction	Group 2015 Outstanding Balance	Group 2014 Amount of Transaction	Group 2014 Outstanding Balance
Related Parties Under Common Ownership					
Interest income from loans and receivables	28.1	**35**	**-**	121	-
Interest expense on deposits	28.2	**10**	**-**	15	-
Occupancy and equipment-related expense	28.5(a)	**829**	**9**	826	11
Miscellaneous expenses – others	25.2	**53**	**-**	44	-
Key Management Personnel					
Loans and receivables	28.1	**(3)**	**4**	6	7
Deposit liabilities	28.2	**(287)**	**176**	57	463
Interest income from loans and receivables	28.1	**-**	**-**	1	-
Interest expense on deposits	28.2	**3**	**-**	3	-
Salaries and employee benefits	28.5(d)	**456**	**-**	428	6
Other Related Interests					
Loans and receivables	28.1	**(249)**	**1,686**	115	1,935
Deposit liabilities	28.2	**78**	**601**	374	523
Interest income from loans and receivables	28.1	**103**	**-**	130	-
Interest expense on deposits	28.2	**3**	**-**	3	-

Related Party Category	Notes	Parent Company 2015 Amount of Transaction	Parent Company 2015 Outstanding Balance	Parent Company 2014 Amount of Transaction	Parent Company 2014 Outstanding Balance
Stockholders					
Loans and receivables	28.1	**(P 537)**	**P 426**	(P 110)	P 963
Deposit liabilities	28.2	**1,545**	**3,018**	115	1,473
Issuance of shares of stock	23.2	**7,729**	**-**	-	-
Interest income from loans and receivables	28.1	**29**	**-**	52	-
Interest expense on deposits	28.2	**5**	**-**	9	-
Subsidiaries					
Loans and receivables	28.1	**142**	**222**	-	80
Deposit liabilities	28.2	**26**	**2,065**	(1,286)	2,039
Interest income from loans and receivables	28.1	**3**	**-**	12	-
Interest expense on deposits	28.2	**6**	**-**	6	-
Dividend income	25.1	**602**	**-**	1,568	-
Rental income	28.5(a), 28.5(b)	**175**	**6**	142	26
Occupancy and equipment-related expense	28.5(b)	**153**	**3**	121	34
Service processing fees	28.5(c)	**410**	**33**	376	-
Sale of investments securities	28.3	**1,287**	**-**	-	-
Purchase of investments securities	28.3	**751**	**-**	2,969	-
Capital subscriptions	12.1	**750**	**500**	-	-
Assignment of receivables	11, 28.1	**222**	**-**	-	-
Associates					
Deposit liabilities	28.2	**(60)**	**65**	(146)	125
Interest expense on deposit	28.2	**3**	**-**	-	-
Dividend income	12	**76**	**-**	6	-
Related Parties Under Common Ownership					
Loans and receivables	28.1	**(1,966)**	**541**	(544)	2,507
Deposit liabilities	28.2	**(596)**	**2,282**	1,007	2,878
Interest income from loans and receivables	28.1	**35**	**-**	121	-
Interest expense on deposits	28.2	**10**	**-**	15	-
Occupancy and equipment-related expense	28.5(b)	**829**	**9**	826	11
Miscellaneous expenses – others	25.2	**53**	**-**	44	-

Related Party Category	Notes	Parent Company 2015 Amount of Transaction	Parent Company 2015 Outstanding Balance	Parent Company 2014 Amount of Transaction	Parent Company 2014 Outstanding Balance
Key Management Personnel					
Loans and receivables	28.1	**(5)**	**2**	7	7
Deposit liabilities	28.2	**(287)**	**176**	57	463
Interest income from loans and receivables	28.1	**-**	**-**	1	-
Interest expense on deposits	28.2	**3**	**-**	3	-
Salaries and employee benefits	28.5(d)	**221**	**-**	193	-
Other Related Interests					
Loans and receivables	28.1	**63**	**1,686**	115	1,623
Deposit liabilities	28.2	**-**	**476**	374	476
Interest income from loans and receivables	28.1	**103**	**-**	130	-
Interest expense from deposits	28.2	**2**	**-**	2	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows:

Related Party Category	Group Issuances	Group Repayments	Group Interest Income	Group Loans Outstanding
2015:				
Stockholders	P -	P 537	P 29	P 426
Related parties under common ownership	40	2,006	35	541
Key management personnel	2	5	-	4
Other related interests	400	649	103	1,686
	P 442	**P 3,197**	**P 167**	**P 2,657**
2014:				
Stockholders	P -	P 110	P 52	P 963
Related parties under common ownership	475	1,019	121	2,507
Key management personnel	8	2	1	7
Other related interests	735	620	130	1,935
	P 1,218	P 1,751	P 304	P 5,412

Related Party Category	Parent Company Issuances	Parent Company Repayments	Parent Company Interest Income	Parent Company Loans Outstanding
2015:				
Stockholders	P -	P 537	P 29	P 426
Subsidiaries	5,754	5,612	3	222
Related parties under common ownership	40	2,006	35	541
Key management personnel	-	5	-	2
Other related interests	400	337	103	1,686
	P 6,194	**P 8,497**	**P 170**	**P 2,877**
2014:				
Stockholders	P -	P 110	P 52	P 963
Subsidiaries	8,956	8,956	12	80
Related parties under common ownership	475	1,019	121	2,507
Key management personnel	8	1	1	7
Other related interests	735	620	130	1,623
	P 10,174	P 10,706	P 316	P 5,180

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under 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 Group and Parent Company and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group and Parent Company. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2015 and 2014, the Group and the Parent Company is in compliance with these regulatory requirements.

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

	Group		Parent Company	
	2015	2014	**2015**	2014
Total outstanding DOSRI loans	**P 1,143**	P 5,412	**P 1,125**	P 5,345
Unsecured DOSRI	**62**	415	**62**	400
Past due DOSRI	**1**	1	**1**	1
Non-accruing DOSRI	**1**	1	**1**	1
Percent of DOSRI loans to total loan portfolio	**0.44%**	2.09%	**0.49%**	2.63%
Percent of unsecured DOSRI loans to total DOSRI loans	**5.46%**	7.67%	**5.51%**	7.48%
Percent of past due DOSRI loans to total DOSRI	**0.08%**	0.02%	**0.08%**	0.02%
Percent of non-accruing DOSRI loans to total DOSRI loans	**0.08%**	0.02%	**0.08%**	0.02%

The Group and Parent Company did not recognize any impairment loss on these loans in 2015 and 2014.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2015 and 2014 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,586	54,508	3	601
	P 250,520	**P 249,840**	**P 24**	**P 6,142**
2014:				
Stockholders	P 57,682	P 57,567	P 9	P 1,473
Associates	10,555	10,701	-	125
Related parties under common ownership	559,264	558,257	15	2,878
Key management personnel	1,259	1,202	3	463
Other related interests	53,285	52,911	3	523
	P 682,045	P 680,638	P 30	P 5,462

	Parent Company			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 3,018
Subsidiaries	1,342,248	1,342,222	6	2,065
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,508	54,508	2	476
	P 1,592,690	**P 1,592,062**	**P 29**	**P 8,082**
2014:				
Stockholders	P 57,682	P 57,567	P 9	P 1,473
Subsidiaries	1,297,402	1,298,688	6	2,039
Associates	10,555	10,701	-	125
Related parties under common ownership	559,264	558,257	15	2,878
Key management personnel	1,259	1,202	3	463
Other related interests	53,285	52,911	2	476
	P 1,979,447	P 1,979,326	P 35	P 7,454

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage into trading of investment securities. These transactions are priced similar to transactions with other counterparties.

28.4 Retirement Fund

The Parent Company's and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2015 and 2014 as follows:

	Group		Parent Company	
Nature of Transactions	**Net Amount of Transaction**	**Outstanding Balance**	**Net Amount of Transaction**	**Outstanding Balance**
2015:				
Investment in common shares of Parent Company	**(P 853)**	**P 1,863**	**(P 853)**	**P 1,863**
Investment in corporate debt securities	**(5)**	**50**	**-**	**50**
Deposits with the Parent Company	**19**	**126**	**-**	**-**
Fair value losses	**(849)**	**-**	**(849)**	**-**
Interest income	**5**	**-**	**3**	**-**
2014:				
Investment in common shares of Parent Company	(P 567)	P 2,716	P 311	P 2,716
Investment in corporate debt securities	(1)	55	(1)	50
Deposits with the Parent Company	(106)	107	-	-
Fair value gains	1,266	-	1,266	-
Dividend income	57	-	57	-
Interest income	6	-	3	-

The carrying amount and the composition of the plan assets as of December 31, 2015 and 2014 are disclosed in Note 24.2. Investment in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.7(b)]. Rental expense incurred by the Group related to this lease arrangements is included as part of Occupancy and Equipment-related account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities in the 2015 and 2014 statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Bank related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2 and 15.1). The outstanding receivable on the lease contracts is presented as part of Accounts receivable under Loans and Receivables in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 and renewable as may be agreed by the parties. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

In December 2013, RBSC entered into a Special Purchase Agreement (the Purchase Agreement) with Bankard, Inc. to transfer Bankard, Inc's credit card servicing operations to RBSC. In accordance with the Purchase Agreement, the BOD of the Parent Company approved the assignment of the Service Agreement (the Agreement) previously with Bankard, Inc. to RBSC. Under the Agreement, RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable on the service agreement is presented as part of Account payable under Other Liabilities in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2015	2014	2013
Short-term employee benefits	**P 338**	P 313	P 351
Post-employment defined benefits	**18**	14	11
	P 356	P 327	P 362

	Parent Company		
	2015	2014	2013
Short-term employee benefits	**P 221**	P 193	P 283
Post-employment defined benefits	**-**	-	-
	P 221	P 193	P 283

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of December 31, 2015 and 2014:

	Group		Parent Company	
	2015	2014	**2015**	2014
Trust department accounts	**P 86,963**	P 82,552	**P 65,841**	P 66,156
Derivative liabilities	**32,102**	22,154	**32,102**	22,154
Derivative assets	**30,822**	23,432	**30,822**	23,432
Outstanding guarantees issued	**29,210**	25,328	**29,210**	25,328
Unused commercial letters of credit	**12,574**	12,095	**12,508**	12,038
Spot exchange sold	**2,346**	6,515	**2,346**	6,062
Spot exchange bought	**2,343**	6,055	**2,343**	6,055
Inward bills for collection	**1,861**	724	**1,861**	724
Late deposits/payments received	**511**	630	**477**	581
Outward bills for collection	**84**	147	**84**	146
Others	**5**	1	**5**	1

29.2 Poverty Eradication and Alleviation Certificates Bonds

In October 2011, the Parent Company filed a case before the Court of Tax Appeals questioning the 20% final withholding tax on PEACe Bonds by the BIR. The Parent Company subsequently withdrew its petition and joined various banks in their petition before the Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Supreme Court, the Bureau of Treasury withheld P199 in October 2011 from the Parent Company on the interest on its PEACe bonds holdings. The amount was recognized and is presented as part of Accounts receivables under the Loans and Receivables account in the statements of financial position (see Note 11.2).

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. On March 16, 2015, the Parent Company filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification to exclude from the definition "deposit substitutes" the PEACe Bonds since there was only one lender at the primary market, and the subsequent sales in the secondary market pertain to a sale or assignment of credit, which is not subject to withholding tax.

The Parent Company also sought partial reconsideration to the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCBC Capital/Code NGO, or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed.

The Parent Company also reiterated its arguments that the tax imposed on the PEACe Bonds constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the obligations by the Bureau of Treasury when it issued the PEACe Bonds. The Office of the Solicitor General also filed a Motion for Reconsideration and Clarification, reiterating the BIR's right to withhold 20% as final withholding tax and asking for clarification on the effect of the ruling on other government securities.

29.3 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI), which purchased Iligan Plant Assets (Plant Assets) of the NSC from the Liquidator in 2004, filed a Notice of Arbitration with the Singapore International Arbitration Centre (SIAC) seeking damages arising from the failure of Liquidator and the secured creditors, including the Parent Company and RCBC Capital, to deliver the Plant Assets free and clear from liens and encumbrance; purportedly depriving them of the opportunity to use the assets in securing additional loans to fund the operations of the Plant Assets and upgrade the same. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award in favor of GSPI and GIHI in the total amount of (a) US$80 million, as and by way of lost opportunity to make profits and (b) P1,403 representing the value of the Lost Land Claim. A petition to set aside the Partial Award was filed with the Singapore High Court, and said petition was granted. GSPI and GIHI filed an appeal on September 1, 2014.

In the meantime, the secured creditors' application for the issuance of consequential orders relating to the discharge of the injunction, costs and other matters, the purpose of which is to allow the secured creditors to obtain complete relief from the SIAC Partial Award, was heard and granted by the Singapore High Court on November 17, 2014. In particular, the Singapore High Court confirmed that the injunctions issued in 2008 and that embodied in the Partial Award have been discharged, so that the secured creditors may now compel GSPI and GIHI to comply with their obligations under the Omnibus Agreement/Asset Purchase Agreement and take legal action upon GSPI's and GIHI's failure to do so. The Singapore High Court likewise granted the secured creditors' claim for the payment of legal costs, the amount of which shall be subject to further submissions. As a result of the ruling of the Singapore High Court that the injunctions previously issued have been discharged, the secured creditors, applying the principle of legal set-off, directed the release of GSPI and GIHI's installment payment by the Facility Agent. Accordingly, the Parent Company and RCBC Capital received their respective share in the funds previously held in escrow.

The Singapore Court of Appeals heard GSPI and GIHI's appeal on January 26, 2015. On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court insofar as it set aside (a) the monetary award of US$80 million and P1,403 representing lost opportunity to make profit and the value of the Lost Land Claim in favor of GSPI and GIHI, and (b) the deferment of GSPI and GIHI's obligation to pay the purchase price of the Plant Assets. The Singapore Court of Appeals ruled that (a) the issue of lost opportunity to make profit was not properly brought before the SIAC Arbitral Tribunal, and the award in issue is unsupported by evidence; (b) the SIAC Arbitral Tribunal erred in putting a value on the Lost Land, since the secured creditors did not, at any point, concede that they will be unable to deliver the same to GSPI and GIHI by October 15, 2012; and, (c) the dispute relating to GSPI and GIHI's payment obligation is an obligation under the Omnibus Agreement, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Parent Company, RCBC Capital and the other secured creditors to defer holding GSPI and GIHI in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to GSPI and GIHI clean title to the NSC Plant Assets.

On August 12, 2015, the Singapore Court of Appeals heard the oral arguments of the parties on the following issues: (a) the remand of the case to the Arbitral Tribunal or a new Arbitral Tribunal, as prayed for by GSPI and GIHI, so it can present evidence on their lost opportunity to make profit, and (b) the costs to be awarded to the NSC Liquidator and the Secured Creditors, which have been the subject of the submissions of the parties. On November 27, 2015, the Singapore Court of Appeals held that under the International Arbitration Act (IAA) of Singapore (based on the UNCITRAL Model Law on International Commercial Arbitration of 1985), which governed the proceedings between the parties, the remission or remand of the issue of GSPI and GIHI's lost opportunity to make profit to the Arbitral Tribunal, or to a new Arbitral Tribunal for that matter, is not allowed as remission under the IAA was conceived as an alternative to a setting aside action, and cannot be availed of where an award has been set aside by the courts. Likewise, the doctrines of res judicata and abuse of process also operate to preclude the reopening of this issue. However, as to the issue of the Lost Land Claims, the Singapore Court of Appeals opined that the Arbitral Tribunal never engaged with the merits of secured creditors' claim that the award to GSPI and GIHI of the amount of P1,403 million is premature. Thus, this issue, covering the Billet Shop Land of 3.4071 hectares (as set out in Schedule VI of the APA), may be the subject of a fresh arbitration proceedings before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the secured creditors.

The Parent Company's exposure is approximately P260 in terms of estimated property taxes and transfer costs due on the Plant Assets, while it has a receivable from Global Steel of P486 taking into consideration the P49 installment payment it had received from the funds previously in escrow. The Parent Company has fully provisioned the receivable, which is classified in the books of the Parent Company as UDSCL with zero net book value. The Parent Company's exposure, however, may be varied depending on (a) the disposition of Iligan City's Motion for Reconsideration on the dismissal of its Petition for Review of the Amended Decision which held that all pre-closing taxes on the NSC assets sold to GSPI and GIHI have already been paid, and (b) should Iligan City agree to enter into another tax agreement with NSC on its outstanding tax obligation.

29.4 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. (VMS), a corporation domiciled in Netherlands, and Verotel International Industries, Inc. (VII), a Philippine corporation civilly sued the Parent Company, Bankard, Inc., Grupo Mercarse Corp., CNP Worldwide, Inc. (CNP) and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5 million, which the defendants allegedly misappropriated. VMS is an internet merchant providing on-line adult entertainment and on-line gambling, in addition to the sale of pharmaceuticals over the internet.

While the court ruled that jurisdiction was obtained over the Parent Company and Bankard, Inc., despite the fact that none of the Parent Company, Bankard, Inc. or any of the plaintiffs do business in California, the Parent Company and Bankard, Inc. believe that the case has no merit and will be ruled in their favor on the following basis:

(a) The plaintiffs have no legal standing to sue. VII ended its corporate existence in 2008 and had no capacity to sue in 2011 when the case was filed. There is also no evidence that VMS is the parent company of VII, neither does VMS has any contract with Bankard, Inc.

(b) All the monies due to VII have been remitted by Bankard, Inc. to Mercarse PA, the agent designated by VII to receive its monies. In addition, VII never gave notice to Bankard, Inc. that it was not receiving payments from their agent.

(c) There is no accounting of the claim of US$1.5 million, and no basis for the same. Based on Bankard, Inc.'s records of this claim (which was remitted to Mercarse), only US$0.5 million belonged to VII and US$1 million belonged to another merchant.

(d) Even under the worst possible scenario, the Parent Company/Bankard, Inc.'s US counsel opined that the ruling against the Parent Company/Bankard, Inc. would not be material since there is no basis to find the Parent Company/Bankard, Inc. liable for fraud.

On December 4, 2014, the Los Angeles Superior Court declared a mistrial and recused herself from hearing the case after one of the plaintiffs' counsel unilaterally set a mandatory settlement conference with another judge of the Los Angeles Superior Court without any directive or clearance from her court.

The aforementioned plaintiffs' counsel likewise did not confer with the Parent Company's US counsel for the said setting. Consequently, the court issued an Order to Show Cause upon the plaintiffs' counsel as to why the matter should not be referred to the California State Bar for misconduct, especially after the counsel issued a declaration casting aspersions on the court and her staff and the veracity of the Minute Order denying that the court ordered the parties to proceed to mandatory settlement conference. The matter was heard on March 30, 2015, at which occasion the judge immediately discharged the Order to Show Cause after the plaintiff's counsel admitted to using inappropriate language in his explanation.

The case was eventually raffled to another judge who, in turn, ruled that there are material facts in dispute which will require a full-blown trial. On September 29, 2015, the Bank was advised by its US counsel that the case will be heard beginning January 2016, as previously scheduled. As such, the Final Status Conference on the case was set last January 7, 2016.

After (a) the January 7, 2016 Final Status Conference, where the new judge modified the order of presentation of evidence so as not to prolong the service of the twelve-man jury and the two alternates, (b) a mandatory settlement conference on January 8, 2016 before another judge, and (c) the jury selection process which transpired from January 12 to 13, 2016, the jury heard the opening statements, evidence and closing arguments of VII/VMS and the Parent Company/Bankard Inc. from January 13 to 26, 2016. Due to the modification in the order of presentation of evidence directed by the judge, the hearing of the Parent Company/Bankard Inc.'s motion for nonsuit (similar to a demurrer to evidence) was ordered deferred until after the jury verdict. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. However, recognizing that the judge's disposition of the Parent Company/Bankard Inc.'s motion for nonsuit based, among others, on prescription and VII and VMS's lack of capacity to sue, following the ruling of the California Supreme Court in the case of Greb v. Diamond International Corp. (56 Cal. 4th 243 [2013]), will impact the jury verdict, the judge, on his own, deferred the entry of such jury verdict until after the March 10, 2016 hearing on the Parent Company/Bankard Inc.'s motion for nonsuit.

At present, the United States counsel is in the process of preparing, among others, the supplement to the earlier motion for nonsuit and the Parent Company/Bankard Inc.'s motion for judgment notwithstanding the verdict, especially in view of the great variance in the allegations contained in VII and VMS's amended complaint, and that actually proven during the trial of the case. In particular, the evidence presented by VII and VMS showed that their monetary claim arose from transactions involving websites officially owned by another merchant, which websites were likewise covered by a different Tripartite Merchant Agreement than what they sued on, and to which they are likewise not parties. Significantly, VII and VMS failed to present any competent proof that they, in fact, own the websites in question, so as to likewise have legal standing to sue.

29.5 Applicability of RR 4-2011

On March 15, 2011, the BIR issued Revenue Regulations No. 4-2011 (RR 4-2011) which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under RBU or FCDU/EFCDU or OBU if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit.

The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU and within FCDU.

On April 6, 2015, Petitioner-Banks filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Preliminary Injunction, with the Regional Trial Court (RTC) of Makati. Further, in Civil Case No. 15-287, the petitioner Banks assailed the validity of RR 4-2011 on various grounds including but not limited to (a) that the said RR was issued and implemented in violation of the petitioner-banks' substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and, (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation.

On April 8, 2015, Makati City RTC issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 27, 2015, Makati City RTC issued a Writ of Preliminary Injunction (WPI) enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 04-2011 against the Petitioner-Banks, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On June 10, 2015, Makati City RTC issued a Confirmatory Order which confirms the effects of the TRO and WPI, that the writ of preliminary injunction currently in effect includes a prohibition against the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as Petitioners are concerned.

29.6 Lease Commitments

(a) Parent Company as a Lessor

In October 2013, the Parent Company has entered into a five year lease agreement with RSB for the latter's lease of certain office and parking spaces in RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. Rental income recognized by the Parent Company in 2014 amounted P95 and is presented as part of Rental under the Other Operating Income account in the 2014 statement of profit or loss [(see Notes 14.2, 25.1 and 28.5(b)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

		2015		2014
Within one year	**P**	**86**	P	82
After one year but not more than five years		**153**		246
	P	**239**	P	328

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers. The Group's rental expense (included as part of Occupancy and Equipment-related account in the statements of profit or loss) amounted to P742, P754 and P809 in 2015, 2014 and 2013, respectively. The lease periods are from one to 25 years. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

As of December 31, 2015, future minimum rental payables under these non-cancellable operating leases follow:

		Group		**Parent Company**
Within one year	P	699	P	577
After one year but not more than five years		2,716		2,257
More than five years		329		292
	P	**3,744**	**P**	**3,126**

30. EARNINGS PER SHARE

The following reflects the profit and per share data used in the basic and diluted EPS computations (figures in millions, except EPS data):

	Group		
	2015	2014	2013
Basic and Diluted EPS			
a. Net profit attributable to Parent Company's shareholders	**P 5,129**	P 4,411	P 5,321
Allocated for preferred and Hybrid Tier 1 (HT 1) dividends	**(219)**	(442)	(418)
b. Adjusted net profit before capital redemption	**4,910**	3,969	4,903
Redemption premium on HT1	**(723)**	-	-
c. Adjusted net profit	**P 4,187**	P 3,969	P 4,903
d. Weighted average number of outstanding common stocks	**1,362**	1,276	1,240
EPS before capital redemption (b/d)	**P 3.60**	P 3.11	P 3.95
Basic and diluted EPS (c/d)	**P 3.07**	P 3.11	P 3.95

	Parent Company		
	2015	2014	2013
Basic and Diluted EPS			
a. Net profit attributable to Parent Company's shareholders	**P 4,268**	P 4,479	P 4,782
Allocated for preferred and Hybrid Tier 1 (HT 1) dividends	**(219)**	(442)	(418)
b. Adjusted net profit before capital redemption	**4,049**	4,037	4,364
Redemption premium on HT1	**(723)**	-	-
c. Adjusted net profit	**P 3,326**	P 4,037	P 4,364
d. Weighted average number of outstanding common stocks	**1,362**	1,276	1,240
EPS before capital redemption (b/d)	**P 2.97**	P 3.16	P 3.52
Basic and diluted EPS (c/d)	**P 2.44**	P 3.16	P 3.52

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group		
	2015	2014	2013
Return on average equity:			
$\frac{\text{Net profit}}{\text{Average total equity}}$	**9.33%**	9.23%	12.18%
Return on average resources:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	**1.09%**	1.04%	1.39%
Net interest margin:			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	**4.15%**	4.30%	4.22%
Profit margin:			
$\frac{\text{Net profit}}{\text{Revenues}}$	**23.07%**	19.98%	23.07%

	Group		
	2015	2014	2013
Debt-to-equity ratio:			
Total liabilities / Total equity	**7.88**	7.62	8.42
Resources-to-equity ratio:			
Total resources / Total equity	**8.88**	8.62	9.42
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**1.81**	2.02	2.27

	Parent Company		
	2015	2014	2013
Return on average equity:			
Net profit / Average total equity	**8.78%**	10.80%	12.96%
Return on average resources:			
Net profit / Average total resources	**1.11%**	1.27%	1.49%
Net interest margin:			
Net interest income / Average interest earning resources	**3.62%**	3.71%	3.75%
Profit margin:			
Net profit / Revenues	**26.89%**	26.82%	27.46%
Debt-to-equity ratio:			
Total liabilities / Total equity	**7.32**	7.07	8.07
Resources-to-equity ratio:			
Total resources / Total equity	**8.32**	8.07	9.07
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**1.89**	2.16	2.27

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