**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM IS**
**INFORMATION STATEMENT PURSUANT TO SECTION 20**
**OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:

   [ ] **Preliminary Information Statement**
   [√] Definitive Information Statement

2. Name of Registrant as specified in its charter: **Rizal Commercial Banking Corporation**

3. Province, Country or other jurisdiction of incorporation or organization: **Philippines**

4. SEC Identification Number: **17514**

5. BIR Tax Identification Code: **320-000-599-760**

6. Address of principal office: **Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave. cor. Sen. Gil J. Puyat Avenue, Makati City**
   Postal Code **0727**

7. Registrant's telephone number, including area code: **(632) 894-9000**

8. Date, time and place of the meeting of the security holders: **June 27, 2016, 4:00 P.M., Carlos P. Romulo Auditorium, 4th Floor, RCBC Plaza, Yuchengco Tower, 6819 Ayala Avenue corner Sen. Gil Puyat Avenue, Makati City**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **June 6, 2016**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| Common | (as of June 1, 2016) 1,399,912,464 |

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange? Yes [√] No [ ]

## A. GENERAL INFORMATION

### 1. Date, Time and Place of Meeting of Security Holders

| | | |
|---|---|---|
| Date | : | June 27, 2016 |
| Time | : | 4:00 P.M. |
| Place | : | Carlos P. Romulo Auditorium<br>4th Floor, RCBC Plaza<br>6819 Ayala Avenue corner<br>Sen. Gil J. Puyat Avenue<br>Makati City |
| Complete mailing address of Principal office | : | 21st Floor, RCBC Plaza, Tower II<br>6819 Ayala Avenue corner<br>333 Sen. Gil J. Puyat Avenue<br>Makati City |
| Approximate date on which the Information Statement is first to be sent or given to security holders | : | June 6, 2016 |

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

### 2. Dissenter's Right of Appraisal

There are no matters or proposed actions as specified in the attached Notice of Annual Stockholders' Meeting that may give rise to a possible exercise by shareholders of their appraisal rights or similar right as provided in Title X of the Corporation Code of the Philippines. However, if at any time after this Information Statement has been sent out, an action (which may give rise to exercise of appraisal right) is proposed at the Annual Stockholders' Meeting, any stockholder who wishes to exercise such right and who voted against the proposed action must make a written demand within thirty (30) days after the Annual Stockholders' Meeting.

Under Title X of the Corporation Code, shareholders dissenting from and voting against the following corporate actions may demand payment of the fair value of their shares as of the day prior to the date on which the vote was taken for such corporation action: (i) amendment to the Bank's articles and by-laws which has the effect of changing or restricting the rights of any shareholder or class of shares; or authorizing preferences in any respect superior to those of outstanding shares of any class; (ii) sale, lease, mortgage or other disposition of all or substantially all of the Bank's assets; (iii) merger or consolidation; (iv) investment of corporate funds in another corporation or business or for any purpose other than its primary purpose; and (v) extension or shortening of term of corporate existence.

The appraisal right may be exercised by any shareholder who shall have voted against the proposed corporate action, by making a written demand on the Bank within thirty (30) days after the date on which the vote was taken for payment of the fair market value of such shareholder's shares. The failure to make demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the Bank shall pay the dissenting shareholder, upon surrender of the certificate(s) representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

## 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

No director or officer of the Bank and, to the best knowledge of the Bank, no associate of a director or officer of the Bank has any substantial interest, direct or indirect, by security holdings or otherwise, in any of the corporate actions to be acted upon at the Annual Stockholders' Meeting, other than election to office of the director.

None of the directors of the Bank has informed the Bank of his intention to oppose any of the corporate actions to be acted upon at the Annual Stockholders' Meeting. Moreover, all directors and management of the Bank act in the best interest of the Shareholders and there have been no adverse findings of conflict of interest or insider trading involving any director or management in the past 2 years.

## B. CONTROL AND COMPENSATION INFORMATION

## 4. Voting Securities and Principal Holders Thereof

**Class of Voting Securities :** As of May 30, 2016, 1,399,912,464 Common shares and 293,987 Preferred shares are outstanding, and are entitled to be represented and vote at the Annual Stockholders' Meeting. Each share is entitled to one vote.

**Record Date :** Only stockholders of record as of May 30, 2016 shall be entitled to notice and vote at the meeting.

**Manner of Voting :** The By-Laws of the Bank provides that the election shall be by ballots, and that every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares of stock standing in his own name in the stock and transfer books of the Bank at the time the books were closed and said stockholder may vote such number of shares for as many persons as there are directors, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, multiplied by the number of shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit, Provided, that the whole number of votes cast by him shall not exceed the number of shares owned by him, as shown in the books of the Bank, multiplied by the whole number of directors to be elected; and Provided, that no stock declared delinquent by the Board of Directors for unpaid subscriptions shall be voted. The votes shall be verified and tabulated by Punongbayan and Araullo, which is an independent third party.

**Security Ownership of Certain Record Owners of more than 5% (as of March 31, 2016)**

| (1) Title of Class | (2) Name, address of record owner and relationship with issuer | (3) Name of Beneficial Owner and Relationship with Record Owner | (4) Citizenship | (5) Number of Shares Held | (6) Percent |
|---|---|---|---|---|---|
| Common | **Pan Malayan Management & Investment Corporation**<br><br>Address: 48/F Yuchengco Tower, RCBC Plaza, 6819 Ayala Ave., Makati City | Pan Malayan Management & Investment Corporation<br><br>*The records in the possession of the Bank show that the beneficial ownership of this company* | Filipino | 583,448,082* | 41.45% |

| | | | | | |
|---|---|---|---|---|---|
| | Relationship with Issuer: RCBC is a subsidiary of PMMIC | *belong to the shareholders of record of said company. The Bank has not been advised otherwise.* | | | |
| | **Cathay Life Insurance Co. LTD**<br><br>Address: No. 296 Ren Ai Road Sec. 4 Taipei R.O.C. (Taiwan) 10633<br><br>Relationship with Issuer: Stockholder | Cathay Life Insurance Co.Ltd.<br><br>*The records in the possession of the Bank show that the beneficial ownership of this company belong to the shareholders of record of said company. The Bank has not been advised otherwise.* | Non-Filipino | 312,136,907 | 22.30% |
| Common | **International Finance Corporation (IFC) & IFC Capitalization (Equity) Fund, L.P.**<br><br>Address:2121 Pennsylvania Avenue, NW Washington, DC 20433 USA<br><br>Relationship with Issuer: Stockholder | International Finance Corporation (IFC)<br><br>*The records in the possession of the Bank show that the beneficial ownership of this company belong to the shareholders of record of said company. The Bank has not been advised otherwise.* | Non-Filipino | 107,875,642 | 7.71% |

**Combined Direct and Indirect Shares of PMMIC*

**The participants under PCD owning more than 5% of the voting securities (common) are:**

| ***Name*** | ***Shares*** | ***% of Total*** |
|---|---|---|
| RCBC Securities, Inc. | 147,524,496 | 10.5381509% |
| The Hongkong and Shanghai Bank | 399,381,582 | 28.5291154% |

**Security Ownership of Certain Record Owners of more than 5% (as of April 30, 2015)**

| ***Title of Class*** | ***Name & Address of Record Owner and Relationship with Issuer*** | ***Name of Beneficial Owner and Relationship with Record Owner*** | ***Citizen-ship*** | ***No. of Shares*** | ***Percent*** |
|---|---|---|---|---|---|
| Preferred | None | | | | |

**Security Ownership of Foreigners (as of April 30, 2016)**

| Title of Class | Shares | % of Total |
|---|---|---|
| Common | 487,346,911 | 34.81 |
| Preferred | 416 | 0.00 |

**Security Ownership of Management (as of March 31, 2016)**

| ***Title of Class*** | ***Name of Beneficial Owner/ Position*** | | ***Amount and Nature of Beneficial Ownership "r"/"b"**** | ***Citizen-ship*** | ***Percent of Class*** |
|---|---|---|---|---|---|
| *a. Board of Directors:* | | | | | |
| Common | Alfonso T. Yuchengco | Honorary Chairman/ Director | P761,050.00 "r" | Filipino | 0.005% |
| Common | Helen Y. Dee | Chairperson | P4,380.00 "r" P5,508,910.00 "b" | Filipino | 0.039% |
| Common | Cesar E. A. Virata | Director/ Corporate Vice-Chairman | P1,670 "r" P1,000,000.00 "b" | Filipino | 0.007% |
| Common | Lorenzo V. Tan[1] | President and CEO | P50.00 "r" | Filipino | 0.000% |
| Common | Teodoro D. Regala | Director | P10.00 "r" | Filipino | 0.000% |
| Common | Wilfrido E. Sanchez | Director | P10.00 "r" P300,000.00 "b" | Filipino | 0.002% |
| Common | Maria Celia H. Fernandez-Estavillo | Director/ Corporate Secretary | 3,839,140.00 "r" 550,000.00 "b" | Filipino | 0.027% |
| Common | John Law | Director | P10.00 "r" | French | 0.000% |
| Common | TzeChing Chan | Director | P10.00 "r" | Chinese | 0.000% |
| Common | Richard G.A. Westlake | Director | P10.00 "r" | New Zealander | 0.000% |
| Common | Medel T. Nera | Director | P10.00 "r" | Filipino | 0.000% |
| Common | Yuh-Shing Peng | Director | P10.00 "r" | R.O.C. (Taiwan) | 0.000% |
| Common | Armando M. Medina | Independent Director | P1,950.00 "r" | Filipino | 0.000% |
| Common | Francisco C. Eizmendi, Jr. | Independent Director | P10.00 "r" | Filipino | 0.00% |
| Common | Antonino L. Alindogan, Jr. | Independent Director | P10.00 "r" | Filipino | 0.00% |
| *b. Senior Management:* | | | | | |
| Common | Alfredo S. Del Rosario[2] | Executive Vice-President | P174,000.00 "b" | Filipino | 0.001% |
| Common | Evelyn Nolasco | Senior Vice President | 27,000.00 "b" | Filipino | 0.00% |
| Common | Gerald O. Florentino | First Senior Vice-President | 55,000 "b" | Filipino | 0.00% |
| Common | Koji Onozawa | Senior Vice-President | P20,000.00 "b" | Japanese | 0.000% |
| Common | Rommel S. Latinazo | First Senior Vice-President | P74,000.00 "b" | Filipino | 0.000% |
| *c. Directors &Principal Officers (as a Group)* | | | P12,317,240.00 | | 0.088% |

*"r" refers to registered ownership and "b" refers to beneficial ownership

[1] Resigned as of May 6, 2016.
[2] Retired as of April 29, 2016.

**Changes in Control:** At present, there is no arrangement known to the Bank which may result in a change in control.

**Voting Trust Holders of 5% or More:** There are no shareholdings holding any Voting Trust Agreement or any such similar agreement.

## 5. Directors and Executive Officers

**(a) Nominees for Independent Directors:**

i. Mr. Armando M. Medina
ii. Mr. Juan B. Santos (effective July 1, 2016)
iii. Mr. Gabriel S. Claudio
iv. Mr. Melito S. Salazar, Jr.

**(b) Nominees for Directors:**

i. Amb. Alfonso T. Yuchengco
ii. Ms. Helen Y. Dee
iii. Mr. Cesar E. A. Virata
iv. Mr. Gil A. Buenaventura (effective July 1, 2016)
v. Atty. Teodoro D. Regala
vi. Atty. Wilfrido E. Sanchez
vii. Mr. Tze Ching Chan
viii. Mr. Medel T. Nera
ix. Mr. Richard G.A. Westlake
x. Mr. John Law
xi. Mr. Yuh-Shing (Francis) Peng

Mr. Eduardo S. Lopez, Jr., a stockholder who is not in anyway related to the nominees, nominated to the Board the re-election of Mr. Armando M. Medina, and election of Mr. Juan B. Santos, Mr. Gabriel S. Claudio, and Mr. Melito S. Salazar, Jr. as Independent Directors.

The Corporate Governance Committee composed of five (5) members, two (2) of whom are independent directors, review and evaluate the qualifications of all persons to be nominated to the Board as well as those to be nominated to other positions requiring appointment by the Board of Directors, i.e, with the ranks of Assistant Vice-Presidents and higher. The Corporate Governance Committee is composed of Mr. Francisco C. Eizmendi, Jr. as the Chairperson, and Atty. Wilfrido E. Sanchez, Mr. Armando M. Medina, Ms. Helen Y. Dee and Atty. Maria Celia H. Fernandez-Estavillo as Members. The Directors will be nominated and elected in accordance with SRC Rule 38.

All the nominated directors comply with all the qualifications required of a director mentioned under Sections X141.2 (for director) of the Manual of Regulations for Banks (MORB) and do not possess any of the disqualifications mentioned under Sections X143.1 (for director) of the MORB, as amended by Circular No. 887 dated October 7, 2015.

Likewise, pursuant to the Code of Corporate Governance, all the directors have satisfied the required number of attendance in board meetings, as well as in their respective Committees.

The Directors shall hold office for one (1) year and until their successors are elected and qualified.

The Independent Director, Mr. Armando M. Medina and additional nominees for Independent Director Mr. Juan B. Santos, Mr. Gabriel S. Claudio, and Mr. Melito S. Salazar, Jr. have always possessed the qualifications and none of the disqualifications of an independent director.

**(c) Directors:**

| *Directors/ Senior Executive Officers* | (Age)/ *Citizenship* | *Position/Period which they had served* |
|---|---|---|
| **Alfonso T. Yuchengco** | (93)/ Filipino | Honorary Chairman (May 27, 2002 to present)<br>Director (June 30, 2003 to present) |

| Position | Company |
|---|---|
| Yuchengco Group of Companies | Chairman |
| EEI Corporation | Chairman |
| Pan Malayan Management & Investment Corporation | Chairman of the Board and Chief Executive Officer |
| MICO Equities (Holding Company of Malayan Group of Insurance Cos.) | Chairman of the Board |
| AY Foundation, Inc. | Chairman of the Board |
| Yuchengco Center Inc. | Chairman |
| Yuchengco Museum | Chairman |
| RCBC Realty Corporation | Chairman |
| Philippine Integrated Advertising Agency, Inc. | Chairman |
| Luisita Industrial Park Corporation | Chairman |
| Y Realty Corporation | Chairman |
| GPL Holdings, Inc. | Director/Chairman |
| Honda Cars Kalookan, Inc. | Director/Chairman |
| Malayan Colleges, Inc. | Chairman/Trustee |
| Enrique T. Yuchengco, Inc. | Chairman |
| YGC Corporate Services, Inc. | Chairman/Director |
| Sunlife Grepa Financial Inc | Director |
| Malayan Insurance Company Inc. | Director |
| RCBC Land, Inc. | Director |
| House of Investments, Inc. | Director |
| Bantayog ng mga Bayani (Pillar of Heroes Foundation) | Chairman of the Board |
| Bayanihan Foundation | Chairman of the Board of Trustees |
| Master of Business Administration (MBA) Juris Doctor (JD) dual degree program of De La Salle University Professional Schools, Inc. Graduate School of Business and Far Eastern University Institute of Law | Chairman of the Board |
| Confederation of Asia-Pacific Chambers of Commerce and Industries (CACCI) | Chairman, Advisory Board |
| Blessed Teresa of Calcuta Awards | Vice-Chairman of the Board of Judges |
| Compania Operatta ng Pilipinas | Honorary Chairman |
| Dabaw Kaisa Foundation Inc. | Honorary Member |
| Asia Society, New York | Trustee Emeritus |
| Waseda Institute for Asia Pacific Studies | Member of International Advisory Board |
| Risumeikan Asia Pacific University | Member of the Advisory Board |
| International Insurance Society (IIS) | Member, Honors Committee and Former Chairman of the Board of Directors and Adviser |

| | |
|---|---|
| Mclaren School of Business, University of San Francisco, USA | Member, International Board of Trustees |
| Columbia University, Business School, New York, USA | Member, Board of Overseers |
| Pacific Forum | Member, Board of Governors |
| University of St. La Salle Affiliate College, Roxas City | Member, Board of Trustees |
| University of Alabama Culverhouse College of Commerce & Business Administration | Member, International Advisory Board |
| Malayan Colleges Laguna, Inc. | Chairman |
| Malayan Insurance Co. (HK) Ltd. | Chairman |
| Malayan Securities Corporation | Director |
| Philippine Constitution Association | Chairman Emeritus |

| | | |
|---|---|---|
| **Helen Y. Dee** | (72)/ Filipino | Board Chairperson (June 27, 2005 to present)<br>Director (March 28, 2005 to present)<br>Interim President and Chief Executive Officer (March 23, 2016 to present) |

| **Company** | **Position** |
|---|---|
| Hydee Management & Resources, Inc. | Chairman/President |
| RCBC Savings Bank | Chairperson |
| House of Investments, Inc. | Chairperson |
| Mapua Information Technology Center, Inc. | Chairman |
| Malayan Insurance Co. Inc. | Director |
| Pan Malayan Realty Corp. | Chairperson |
| RCBC Leasing and Finance Corporation | Director / Chairperson |
| Tameena Resources, Inc. | Chairman & CEO |
| Landev Corp. | Chairman |
| HI-Eisai Pharmaceuticals, Inc. | Chairman |
| Manila Memorial Park Cemetery, Inc. | Chairman |
| La Funeraria Paz Sucat | Chairperson/Director |
| Financial Brokers Insurance Agency, Inc. | Chairperson/President |
| Mijo Holdings, Inc. | Chairman/President |
| Xamdu Motors, Inc. | Chairman |
| National Reinsurance Corporation of the Philippines | Chairman |
| West Spring Development Corp. | Vice-Chairman |
| Pan Malayan Management & Investment Corp. | Director/ Vice Chairman |
| Philippine Long Distance Telephone Company | Director |
| Petro Energy Resources Corp. | Chairman and Director |
| Petrowind Energy Inc. | Chairman |
| Seafront Resources Corp. | Chairperson/Director |
| MICO Equities, Inc. | Director |
| AY Holdings, Inc. | Director |
| Pan Malayan Express | Director |
| Isuzu Philippines, Inc. | Director |
| Honda Cars Philippines, Inc. | Director |
| Philippine Integrated Advertising Agency, Inc. | Director |
| Sunlife Grepa Financial Inc. | Director |
| Honda Cars Kalookan | Director |
| RCBC Forex Brokers Corp. | Director |

| | |
|---|---|
| Mapua Board of Trustees | Member |
| Philippine Business for Education, Inc. | Board Member Trustee |
| EEI Corporation | Board Member |
| GPL Holdings | President |
| Moira Management, Inc. | President |
| YGC Corporate Services, Inc. | President |
| Business Harmony Realty, Inc. | Treasurer |
| RCBC Realty Corporation | Director |
| A.T. Yuchengco, Inc. | Vice President |
| Luisita Industrial Park Corporation | Director |
| iPeople, Inc. | Director |
| Y Realty Corporation | Director |
| E.T. Yuchengco, Inc. | Director |
| Malayan Colleges Laguna, Inc. | Trustee |
| Malayan High School of Science, Inc. | Chairperson |
| Luis Miguel Foods | Director |

| | | |
|---|---|---|
| **Cesar E.A. Virata** | (85)/ Filipino | Director (1995 to present) Corporate Vice-Chairman (June 22, 2000 to present) |

| Company | Position |
|---|---|
| C.Virata & Associates Inc. | Chairman & President |
| ATAR VI Property Holding Company, Inc. | Chairman & Director |
| RCBC Realty Corp. | Director |
| RCBC Forex Broker Corporation | Chairman & Director |
| RCBC Bankard Services Corporation | Chairman/ Director |
| RCBC Land, Inc. | President/ Director |
| ALTO Pacific Company, Inc. | Chairman / Director |
| Malayan Insurance Co., Inc. | Director |
| RCBC Savings Bank | Director |
| Luisita Industrial Park Corporation | Vice-Chairman |
| RCBC International Finance Ltd. (Hongkong) | Director |
| Lopez Holdings Corp. | Independent Director |
| Cavitex Infrastructure Corporation | Director |
| YGC Corporate Services, Inc. | Director |
| Niyog Properties Holdings, Inc. | Director |
| Business World Publishing Corp. | Vice-Chairman |
| Belle Corporation | Independent Director |
| City and Land Developers, Inc. | Independent Director |
| AY Foundation, Inc. | Trustee |
| Malayan Colleges, Inc. (Operating under Mapua Insitute of Technology) | Trustee |

| | | |
|---|---|---|
| **Gil A. Buenaventura** | (63)/ Filipino | Director, President and CEO (effective July 1, 2016) |

| Company | Position |
|---|---|
| Makati Business Club | Member |
| Management Association of the Philippines | Member |
| De La Salle Philippines School System | Member of the Investment Committee |

| | |
|---|---|
| Bankers Association of the Philippines | Board Member |
| Continental Leaf Tobacco, Inc. | Director, Corporate Secretary, and Treasurer |
| Gab Realty Incorporated | Director and Treasurer |

**Teodoro D. Regala** (82)/ Filipino Director (June 28, 1999 to present)

| Company | Position |
|---|---|
| Angara Abello Concepcion Regala & Cruz Law Offices | Founding Partner |
| Malayan Insurance Co., Inc. | Director |
| MICO Equities, Inc. | Director |
| Philplans First, Inc. | Independent Director |
| Philhealthcare, Inc. | Director |
| Dimension Data Philippines Inc. | Director |
| Safeway Philtech, Inc. | Director |
| Union Church of Manila Philippine Foundation Inc. | Director/ Chairman of the Board/ President |
| General Motors Automobiles Phils., Inc. | Director |
| OEP Philippines, Inc. | Director/Corporate Secretary |
| SDI Media Philippines Corporation | Director |
| GM Global Business Services Philippines | Director |
| Powersource Phils. Development Corporation | Corporate Secretary |

**Wilfrido E. Sanchez** (79)/ Filipino Director (March 27, 2006 to present)

| Company | Position |
|---|---|
| Quiason Makalintal Barot Torres & Ibarra Law Offices | Director |
| Adventure International Tours, Inc. | Director |
| Amon Trading Corp. | Director |
| Center for Leadership & Change, Inc. | Director |
| EEI Corporation | Director |
| House of Investments | Director |
| EMCOR, Inc. | Director |
| Eton Properties Philippines, Inc. | Director |
| J-DEL Investment and Management Corp. | Director |
| JVR Foundation, Inc. | Director |
| Kawasaki Motor Corp. | Director |
| K Servico Trade, Inc. | Director |
| Magellan Capital Holdings Corp. | Director |
| LT Group Inc. | Director |
| Transnational Diversified Corp. | Director |
| Transnational Financial Services, Inc. | Director |
| Universal Robina Corp. | Director |

**Maria Celia H. Fernandez-Estavillo** (44)/ Filipino Director (June 26, 2005 to present)
Corporate Secretary (February 28, 2005 to present)
Executive Vice-President, Head of Legal and Regulatory Affairs Group (August 1, 2006 to present)

| Company | Position |
|---|---|
| Phil. Integrated Advertising Agency | Director |

| | |
|---|---|
| Luisita Industrial Park Corp. | Director/Corporate Secretary |
| RP Land Development Corp. | Director |
| YGC Corporate Services Inc. | Director |
| Yuchengco Center | Trustee |
| RCBC Capital Corporation | Corporate Secretary |
| RCBC Savings Bank | Corporate Secretary |
| Niyog Property Holdings, Inc. | Corporate Secretary |
| FBIA Insurance Agency, Inc. | Director |
| Calafern, Inc. | Director / Treasurer |

| | | |
|---|---|---|
| **Medel T. Nera** | (60)/ Filipino | Director (July 25, 2011 to present) |

| Company | Position |
|---|---|
| Philippine National Reinsurance Corporation | Director |
| House of Investments, Inc. | Director / President / CEO |
| RCBC Realty Corp. | Director / President |
| Honda Cars Kalookan | Director / President |
| iPeople, Inc. | Director |
| Landev Corporation | Director |
| Hi-Eisai Pharmaceutical | Director |
| Malayan Colleges Laguna | Director |
| Investment Managers, Inc. | Director |
| YGC Corporate Services | Director |
| Greyhounds Security and Investigation Agency | Chairman / Director |
| Cribs Foundation, Inc. | Director / Treasurer |
| Zamboanga Industrial Finance | Chairman |
| RCBC Forex Brokers Corporation | Director |
| Seafront Resources Corporation | Director |
| EEI Corporation | Director |
| EEI Realty Corporation | Chairman |
| AL Rushaid Construction Corporation | Director |
| Hexagon Lounge, Inc. | Chairman |
| Manila Memorial Park Cemetery, Inc. | Director |
| Management Association of the Phils. | Vice Chairman, Nomination and Election Committee (NOMELEC) |

| | | |
|---|---|---|
| **Tze Ching Chan** | (59)/ Chinese | Director (November 28, 2011 to present) |

| Company | Position |
|---|---|
| The Community Chest of Hong Kong | Member, Board of Directors/Member, Executive Committee/Chairman, Investment Subcommittee |
| Hong Kong Exchanges and Clearing Limited | Member, Board of Directors/Chairman, Panel Nomination Committee/Deputy Chairman, Clearing Consultative Panel/Member, Audit Committee/Member, Nomination Committee |
| Mongolian Mining Corporation (MMC) | Member, Board of Directors/Chairman, Audit |

| | |
|---|---|
| | Committee |
| Portofino (165) Limited | Director |
| Tung Shing Holdings Company Limited | Non-Executive Director |
| East Asia Futures Limited | Non-Executive Director |
| East Asia Securities Company Limited | Non-Executive Director |
| The Bank of East Asia, Limited | Senior Adviser |
| CVC Capital Partners | Senior Adviser |
| Hong Kong Institute of Bankers | Honorary Advisory Vice President |
| Hong Kong Open University | Member, Sponsorship and Development Fund Committee |
| Hong Kong Polytechnic University | Chairman of Council/Membership of Advisory Committee of Institute of Active Ageing (IAA)/ Membership of Endowed Professorship Scheme Advisory Committee |
| Hong Kong Red Cross | Council Member/Chairman, Audit Committee |
| Hong Kong Securities Clearing Company Limited | Member, Disciplinary Appeals Committee |
| Securities and Futures Commission | Member of Executive Committee |
| The Hong Kong Tourism Board | Member |
| Standing Commission on Civil Services Salaries and Conditions of Service (SCCS) | Member |
| The Financial Reporting Council | Member |

**Richard G.A. Westlake** (64)/ New Zealand Director (October 1, 2014 to present)

| Company | Position |
|---|---|
| Westlake Governance Limited, Wellington, New Zealand | Managing Director and Founder |
| Careerforce Industry Training Organisation Limited, New Zealand | Independent Chairman |
| Dairy Goat Co-operative (NZ) Limited, New Zealand | Independent Director and Chair of Finance & Audit Committee |

**John Law** (65)/ France & Taiwan (dual citizen) Director (April 27, 2015 to present)

| Company | Position |
|---|---|
| Oliver Wyman | Senior Advisor |
| Far East Horizon Ltd. | Board Director |
| BNP Paribas (China) Ltd. | Board Director |
| Bank of Hangzhou | Board Director |

**Yuh-Shing (Francis) Peng** (44)/ Taiwanese Director (April 27, 2015 to present)

| Company | Position |
|---|---|
| Cathay United Bank | Executive Vice President, International Banking Department/Executive Vice President, Corporate Banking |

| | |
|---|---|
| | Strategy &Product Department/Executive Vice President, Offshore Banking Unit |

**Armando M. Medina** (66)/ Filipino Independent Director (February 26, 2003 to present)

| Company | Position |
|---|---|
| RCBC Capital Corp. | Independent Director |
| RCBC Savings Bank | Independent Director |
| Malayan Insurance Co. | Independent Director |

**Francisco C. Eizmendi, Jr.** (80)/ Filipino Independent Director (May 29, 2006 to present)

| Company | Position |
|---|---|
| Institute of Corporate Directors | Trustee |
| Sun Life Grepa Financial Inc. | Independent Director |
| Great Life Financial Assurance Corporation | Independent Director |
| Makati Finance | Independent Director |
| Dearborn Motor Co. | Chairman |
| East West Seed | Advisory Board Member |

**Antonino L. Alindogan, Jr.** (77)/ Filipino Independent Director (September 24, 2007 to present)

| Company | Position |
|---|---|
| House of Investments, Inc. | Independent Director |
| An-Cor Holdings, Inc. | Chairman of the Board |
| Eton Properties Phils., Inc. | Independent Director |
| PAL Holdings, Inc. | Independent Director |
| Philippine Airlines, Inc. | Independent Director/ ExCom Member/ Audit Committee Chairman |
| LT Group Inc. | Independent Director |
| Landrum Holdings | Chairman and President |
| Great Life Financial Assurance Corp. | Independent Director |
| RCBC Bankard Services Corp. | Independent Director |

**Juan B. Santos** (77)/ Filipino Nominated for Independent Director (2016 Annual Stockholders'Meeting)

| Company | Position |
|---|---|
| Social Security Commission | Chairman |
| Philippine Long Distance Telephone Company (PLDT), | Director |
| Philippine Holdings Corporation, | Director |
| Philex Mining Corporation | Director |
| Sun Life Grepa Financial, Inc., | Director |
| Alaska Milk Corporation | Director |

| | |
|---|---|
| Philippine Investment Management (PHINMA), Inc.; | Director |
| Coca-Cola FEMSA Philippines | Member, Board of Advisors |
| East-West Seeds Co., Inc. | Member, Board of Advisors |
| Dualtech Training Center Foundation, Inc., | Chairman, Board of Trustee |
| St. Luke's Medical Center | Trustee |
| Marsman-Drysdale Group of Companies | Consultant |
| Mitsubishi Motor Philippines Corporation | Consultant |

**Gabriel S. Claudio** (61)/ Filipino Nominated for Independent Director (2016 Annual Stockholders'Meeting)

| Company | Position |
|---|---|
| Ginebra San Miguel, Inc. | Director |
| Risks and Opportunities Management, Inc. | Vice-Chairman |
| Conflict Resolution (CoRe) Group Foundation, Inc. | Chairman of the Board of Trustees |
| Lion's Club Pasig Host Chapter | Director |
| Pinac Restaurant | Part-Owner |
| TOBY's Sports and Youth Foundation | Member of the Board of Trustees |
| Clouds@Night Band | Manager/Band leader/bass guitarist and vocalist |

**Melito S. Salazar, Jr.** (66)/ Filipino Nominated for Independent Director (2016 Annual Stockholders'Meeting)

| Company | Position |
|---|---|
| Centro Escolar University | Dean, School of Accountancy and Management |
| Quickminds Corporation | Chairman and President |
| Omnipay, Inc. | Chairman and Independent Director |
| Manila Bulletin Publishing Corporation | Columnist and Vice President |
| Philippine Normal University System | Regent |
| Concepcion Industrial Corporation | Independent Director and Chairman Audit Committee |
| Yanmar Philippines | Independent Director |
| TECO Philippines | Independent Director |
| Frontier Oil | Independent Director |
| PhilsFirst Insurance | Independent Director and Member Audit Committee |
| Sun Life Prosperity GS Funds, Inc. | Independent Director |
| Sun Life of Canada Prosperity Balanced Fund, Inc. | Independent Director |
| Sun Life of Canada Prosperity Fund, Inc. | Independent Director |
| Sunlife Prosperity Dollan Wellspring Fund | Independent Director |

**(d) Executive Officers:**

***Senior Executive Vice-Presidents***

| | | |
|---|---|---|
| BANCOD, Redentor C. | Group Head | Office of the Group Head – ITSSG |

| | | |
|---|---|---|
| DEVERAS, John Thomas G. | Head, Strategic Initiatives<br><br>Group Head | Office of the President & Chief Executive Officer<br><br>Office of the Group Head - Asset Management & Remedial |

***Executive Vice-Presidents***

| | | |
|---|---|---|
| AGUILAR, Michelangelo R. | Group Head | Office of the Group Head – Conglomerates and Global Corporate Banking |
| DE JESUS, Michael O. | Group Head | Office of the Group Head – National Corporate Banking |
| ESTAVILLO, Maria Celia F. | Group Head / Corporate Secretary | Office of the Group Head - Legal & Regulatory Affairs |
| LATINAZO, Rommel S. | President and Chief Executive Officer | RCBC Savings Bank (Seconded) |
| LIM, Ana Luisa S. | Group Head | Office of the Group Head- Internal Audit |

***First Senior Vice-Presidents***

| | | |
|---|---|---|
| DAYRIT, Rafael Aloysius M. | Group Head | Credit Management Group |
| CALASANZ, Simon Javier A. | President and Chief Executive Officer | RCBC Bankard Services Corporation (Seconded) |
| FERRER, Lourdes Bernadette M. | Group Head | Trust & Investments Group |
| FLORENTINO, Gerald O. | President | RCBC Securities, Inc. (Seconded) |
| GO, John P. | Segment Head | Office of the Segment Head – Chinese Banking Segment II |
| MAGNO, Regino V. | Group Head | Corporate Risk Management Services |
| MARANAN, Remedios M. | National Service Head | Retail Banking Group |
| MATSUMOTO, Yasuhiro . | Segment Head | Global and Ecozone Segment |
| NARCISO, Emmanuel T. | Group Head | Global Transaction Banking Group |
| ORSOLINO, Reynaldo P. | Segment Head | Emerging Corporates Segment |
| RACELA, Lizette Margaret Mary, J. | Group Head | Retail Banking Group |
| SUBIDO, Rowena F. | Group Head | Human Resources Group |

***Senior Vice-Presidents***

| | | |
|---|---|---|
| ALVAREZ, Ma. Christina P. | Group Head | Corporate Planning Group |
| BUENAFLOR, Enrique C. | Segment Head | Global Transaction Banking |
| CANLAS, Karen K. | Division Head | Division 1, Wealth Management Segment 2 |
| CAPINA, Brigitte B. | Regional Sales Director | South Metro Manila Regional Office |
| CHUA, Arsenio L. | Regional Sales Director | North Metro Manila Regional Office |
| CONTRERAS, Claro Patricio L. | Division Head | Office of the Division Head - Remedial Management |
| CORONEL, Elizabeth E. | Segment Head | Office of the Division Head - Conglomerate Banking |
| ECO, Sabino Maximiano O. | Deputy Group Head/ Division Head | Office of the Group Head – Operations Branch Banking Services Division |
| ERMITA, Edwin, R. | Bank Security Officer | Office of the President & Chief Executive Officer |

| | | |
|---|---|---|
| ESTACIO, Benjamin E. | Regional Service Head | Mindanao Service |
| LOPEZ, Margarita B. | Group Head | Digital Banking Group |
| MACASAET, Vivien L. | Division Head | Management Services Division |
| MADONZA, Florentino M. | Group Head | Office of the Group Head – Controllership Group |
| MAÑAGO, Jane N. | Group Head | Wealth Management Group |
| MERCADO, Carlos Cesar B. | Acting Group Head | Treasury Group |
| MIRAL, Gerardo G. | Head of Consumer Lending Group | RCBC Savings Bank (Seconded) |
| NOLASCO, Evelyn | Division Head | Asset Disposition |
| ONOZAWA, Koji | Japanese Liaison Officer | Japanese Business Relationship Office |
| PALOSO, Matias L. | Segment Head | RBG Products, Support And Systems Segment |
| PAPILLA, Loida, C. | Division Head | Asset Management Support Division |
| PEDROSA, Alberto N. | Segment Head | Office of the Segment Head - Investment & Markets Trading |
| PEJO, Arsilito A. | Regional Sales Director | Eastern Visayas Regional Office |
| QUIOGUE, Nancy J. | Regional Service Head | Metro Manila Regional Service |
| RAMOS, Elsie S. | Division Head | Legal Affairs |
| REYES, Ismael S. | National Sales Director | Retail Banking Group |
| REYES, Steven Michael T. | Segment Head | Office of the Segment Head - Commercial Trading and Sales |
| RODRIGUEZ, Joseph Colin B. | President and Chief Executive Officer | RCBC Forex Corporation (seconded) |
| SANTOS, Raoul V. | Division Head | Investment Services Division |
| SELIRIO, Liberine R. | Division Head | Global & Ecozone Segment – Division 1 |
| SINGH, Michael Ashwin S. | Segment Head | Institutional Cross-Selling Segment |
| SO, Johan C. | Division Head | Chinese Banking Segment 1 - Division 1 |
| TINIO, Ma. Angela V. | Segment Head | Commercial and Small Medium Enterprises Banking Segment |
| VALENA, Teodoro Eric D. Jr. | IT Head | ADD 6 - Retail E-Channels/Mobile Applications Systems |

Most of the Directors and Executive Officers mentioned herein have held their positions for at least five (5) years.

There are no compensation arrangements for members of the Board of Directors, other than the per diem and dividends provided under Article V, Section 8, and Article XI, Section 2, respectively, of the Bank's Revised By-Laws. Key executives also receive long term bonuses earned over a 5-year period, the amount of which is tied directly to shareholder value, profitability and enterprise value.

**(e) Significant Employees:** There is no person other than the entire human resources as a whole, and the executive officers, who is expected to make a significant contribution to the Bank.

**(f) Family Relationships:** Amb. Alfonso T. Yuchengco is the father of Ms. Helen Y. Dee. Other than such relationship, none of the Bank's Directors are related to one another or to any of the Bank's executive officers.

**(g) Legal Proceedings:**

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

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

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI), which purchased the Iligan 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 the Liquidator and the secured creditors, including the Bank 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 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$80,000,000.00, as and by way of lost opportunity to make profits and (b) P1,403,000,000.00, representing the value of the Lost Land Claim. A petition to set aside the Partial Award was filed with the Singapore High Court, which granted the same on July 31, 2014. The Singapore High Court likewise subsequently heard and granted on November 17, 1014 the secured creditors' application, among others, for the issuance of consequential orders relating to the discharge of the injunctions issued in 2008, such that applying the principle of legal set-off, the secured creditors directed the release of GSPI and GIHI's installment payment by the Facility Agent. Accordingly, the Bank and RCBC Capital received their respective share in the funds previously held in escrow. Moreover, the secured creditors may now compel GSPI and GIHI to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon GSPI and GIHI's failure to do so.

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 million 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 OMNA, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Bank, 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 12 August 2015, the Singapore Court of Appeals heard the oral arguments of the parties on the following issues: (a) the remand of the case back 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, applying the provisions of the International Arbitration Act (IAA) of Singapore, which governed the proceedings between the parties, the issue of GSPI and GIHI'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 earlier award relating thereto has been set aside by the courts. 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 since this issue was not actually fully litigated before the Arbitral Tribunal, 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 Bank's exposure is approximately P204,499,482.67 in terms of estimated property taxes and transfer costs due on the Iligan Plant assets, while it has a receivable from Global Steel of P485.5 million, taking into consideration the P49.3 million 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 (a) 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 GSPI and GIHI are deemed paid, following the denial with finality of its Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on 16 March 2016, and (b) should Iligan City agree to enter into another tax agreement with NSC on its outstanding post-closing tax obligation.

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, 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 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 January 27, 2016, the jury rendered a verdict solely in favor of VMS, which was, however, not immediately entered into the records of the case pending the resolution of the Bank/Bankard's motion for nonsuit. On 10 March 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, citing the grounds of (a) prescription, (b) lack of capacity/standing to sue of VII/VMS, and (c) VII/VMS's own evidence indicating that their monetary claim arose from transactions involving websites officially registered under another merchant. On 11 April 2016, the Bank/Bankard timely filed their motions for JNOV and new trial.

On May 12, 2016, Judge Raphael heard the Bank/Bankard's motions for JNOV and new trial, and rendered a decision on May 13, 2016, partially granting the Bank/Bankard's motion for JNOV by deleting the punitive damages awarded by the jury in favor of VMS, as there is no evidence that a corporate officer or director of the Bank/Bankard authorized or ratified the fraudulent acts perpetrated by Janet Conway. Judge Raphael, however, affirmed the principal award in favor of VMS in the total amount of US$2,016,717.30, inclusive of interest. The Bank's exposure, however, may be varied depending on the outcome of the hearing on VMS's motion for cost of proof sanctions, which the Bank/Bankard timely opposed. The Bank/Bankard is currently contemplating the filing a Notice of Appeal with the California Court of Appeals.

In December 2011, RCBC Securities initiated the filing of a criminal case for falsification against a former agent who carried out certain questionable transactions with her own personal clients. Since then, RCBC Securities has filed additional criminal and civil cases, including charges of BP 22, against the aforesaid former agent. These cases are now pending with the Regional Trial Court and Metropolitan Trial Court of Makati City. There is also an investigation before the Capital Markets Integrity Corporation ("CMIC") of the Philippine Stock Exchange initiated in May 2012 requesting for an investigation on the operations of RSEC in relation to the accounts handled by the former agent and requesting the CMIC to take appropriate action. The CMIC, in its letter dated 4 December 2014, dismissed the complaint on the ground of prescription and res judicata. The complainants' motion for reconsideration of the CMIC decision remains pending to date. There is also a complaint filed in December 2013 before the Securities and Exchange Commission ("SEC") for alleged violations by RSEC of the Securities Regulation Code for improperly accounting for shares handled by the former agent. The complaints sought for penalties against RSEC, including the suspension or revocation of RSEC's license. The complaint is still pending before the SEC.

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 million 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 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% final withholding tax it withheld on the PEACe Bonds on 18 October 2011. On 16 March 2015, RCBC 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. RCBC 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. RCBC 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 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.

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 RCBC and member-banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Preliminary Injunction (P.I.), 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, 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 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 10 June 2015, RTC Makati 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.

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.

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.

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to 4 accounts in RCBC, which were eventually transferred to various accounts outside of RCBC. Regulatory penalties and various cases may arise from this. The Bank does not expect these penalties to be of a material nature that would affect its ability to perform its existing obligations or unduly hamper its operations.

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.

**(h) Non-Involvement in Certain Legal Proceedings:**

To the knowledge and/or information of the Bank, the nominees for election as Directors of the Bank, its present members of the Board of Directors or its Executive Officers are not, presently or during the last five (5) years, involved or have been involved in any legal proceeding decided adversely affecting/involving themselves, and/or their property before any court of law or administrative body in the Philippines or elsewhere.

No director has resigned or declined to stand for re-election to the board of directors since the date of the annual meeting of security holders because of disagreement with the Bank on any matter relating to the Bank's operations, policies or practices.

**(i) Certain Relationships and Related Transactions:**

The Bank is a member of the Yuchengco Group of Companies (YGC). The Yuchengco family, primarily through Pan Malayan Management and Investment Corporation (PMMIC), is the largest shareholder. As of December 31, 2015, PMMIC owned 473,963,632 certificated shares, approximately 33.86% of the Bank's issued and outstanding common shares. Total shareholdings comprising both certificated and scripless shares amount to 583,448,082, approximately 41.68% of the Bank's issued and outstanding common shares.

The Bank and its subsidiaries, in the ordinary course of business, engage in transactions with entities within the YGC. The Bank adheres to the policy that transactions with related parties are conducted at arm's length with any consideration paid or received by the Bank or any of its subsidiaries in connection with any such transaction being on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances, and the same has been institutionalized in the Bank's Policy on Related Party Transactions (the "Policy").

The Policy adopts an expanded definition of "related parties." Related parties includes not only directors, officers, stockholders and related interests ("DOSRI") as defined under the General Banking Law and related issuances, and related parties as defined under Philippine Accounting Standards 24 ("PAS 24"), but also relatives of the Bank's directors, officers and stockholders up to second civil degree of consanguinity and affinity. The expanded definition also includes the members of the Advisory Board, consultants of the Bank, and the directors and key officers of the Bank's subsidiaries and affiliates, among others. The Bank maintains a database of related parties which is regularly updated to capture organizational and structural changes within the YGC.

Transactions directly or indirectly involving related parties as defined by Policy, where the amount involved is at least Pesos: One Million (Php1,000,000.00), are reportable as related party transactions ("RPTs").

Related parties, through their respective account officers, are enjoined to notify the Related Party Transactions Committee ("RPT Committee") of any potential RPT as soon as they become aware of it. The RPT Committee is a board committee composed of at least three members of the Board of Directors, including the Chairman who must be an independent director, and does not sit as a member of the Audit Committee.

If a transaction is determined to be an RPT, the said transaction and all its relevant details shall be submitted to the RPT Committee in order to aid the latter in evaluating whether 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.

The RPT shall thereafter be presented to the Board of Directors for approval. In the event that a member of the Board has interest in the transaction under evaluation, the said member shall not participate in the discussion and shall abstain from voting on the approval of the RPT. Pursuant to BSP Circular No. 749 as amended and the Bank's Corporate Governance Manual, the Bank's significant transactions with its DOSRI and related parties were confirmed by majority vote of the Bank's stockholders during the last annual stockholders' meeting on 22 June 2015.

Review of related party transactions is part of compliance testing of the Compliance Office as well as audit work program of the Internal Audit Group.

The Group's significant transactions with its related parties as of end December 2015 include loans and receivables and deposit liabilities. The total amount of loans outstanding was at P2.657 billion while total deposit liabilities was at P6.142 billion by end of December 2015. (see Notes 28.1 and 28.2, in the Notes to Financial Statements)

The Bank complies with existing BSP regulations on loans, credit accommodations and guarantees to its DOSRI.

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain DOSRIs. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and business of comparable risks.

Under current BSP regulations, the amount of loans to each DOSRI, 70% of which must be secured, should not exceed the amount of his deposit and book value of his investment in the Bank. In the aggregate, loans to DOSRIs, generally, should not exceed the total capital funds or 15% of the total loan portfolio of the Bank and/or any of its lending and nonbanking financial subsidiaries, whichever is lower. As of December 31, 2015 and 2014, the Group and the Parent Company are in compliance with these regulatory requirements.

The total amount of DOSRI loans was at P5,412 as of end December 2014 and was at P1,143 by end of December 2015. (Note 28.1, Notes to Financial Statements) Certain of the Bank's major related-party transactions are described below.

- RCBC and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). 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. RCBC's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. [Note 28.5(a), par.1, Notes to Financial Statements]

- On June 29, 2015, RCBC's BOD approved the engagement of Philippine Integrated Advertising Agency ("PIAA") for advertising and PR services in the amount of P75 million. The contract covers product advertising, corporate/institutional advertising, brand advertising, media planning and buying, consumer promotion, printing of collaterals and production of other merchandising materials, public relations, event management and web design.

- On 28 September 2015, RCBC BOD approved the participation of International Finance Corporation ("IFC") as an anchor investor in the proposed bond issue of RCBC. IFC has indicated to participate for up to USD75 out of a potential bond issue size of up to USD300, for a total fee of between 20-40 basis points. (See Note 19, Notes to Financial Statements)

- RCBC's and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by RCBC's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan. 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. [Note 28.4, Notes to Financial Statements]

Transactions which are considered to have no material impact on the financial statements as the amounts paid represent less than five percent (5%) of total assets:

- The Bank entered into a Memorandum of Agreement with HI, a member of the YGC, for the procurement of outsourcing services. Under the agreement, HI is the Bank's sole representative in negotiating the terms of the contracts with selected suppliers or service providers for the procurement of certain outsourcing services, primarily IT related services. The agreement stipulated that HI would not charge fees for its service except for its share in the savings generated from suppliers and service providers. Moreover, HI is obligated to ensure that the contracts they initiate do not prejudice the Bank in any way and that the Bank does not pay more than the cost of buying the items without aggregation.
- The law firm of Angara Abello Concepcion Regala & Cruz (ACCRA) Law Office is among the firms engaged by the Bank to render legal services. Atty. Teodoro Dy-Liaco Regala, Director, is a Senior Partner of ACCRA Law Office. During the year, the Company paid ACCRA legal fees that the Company believes to be reasonable for the services provided.

Transactions with subsidiaries which are eliminated in the consolidated financial statements are as follows:

- The Bank has service agreements with RCBC Savings Bank (RSB) and Bankard Inc. (now RBSC) for the in-sourced internal audit services. The Bank provides full-scope audit services to RSB and limited audit services to Bankard Inc., specifically IT audit, operations audit and financial statements review. Also, the Bank has formalized the service agreements for the internal audit services being provided to subsidiaries namely: RCBC Capital Corp., RCBC Securities, Inc., RCBC Forex Brokers Corp., Merchant Savings and Loan Association, Inc. (Rizal Microbank), RCBC Leasing and Finance Corporation and Niyog Property Holdings, Inc.
- RCBC entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Bank related to these sublease arrangement is included as part of Rentals under the Miscellaneous income account in the statement of profit or loss. [Note 28.5(a), par. 2, Notes to Financial Statements)
- On February 23, 2015, RCBC's BOD approved the subscription to P500 million 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. (Note 12.1, par. 1, Notes to Financial Statements)
- On May 25, 2015, RCBC's BOD approved the equity infusion into Rizal Microbank of P250 million 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 BSP on September 30, 2015. [Note 12.1, par. 1, Notes to Financial Statements]
- On May 25, 2015, RCBC's BOD also approved the acquisition of receivables from Rizal Microbank in the amount of P222 million.

The Bank's other transactions with affiliates include service agreements, leasing office premises to subsidiaries which is eliminated during consolidation, and regular banking transactions (including purchases and sales of trading account securities, securing insurance coverage on loans and property risks and intercompany advances), all of which are at arms' length and conducted in the ordinary course of business.

The Bank does not have any transactions with promoters within the past five (5) years. The Bank does not have transactions with parties that fall outside the definition of related parties under SFAS/PAS No. 24, but with whom the registrants or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

## 6. Compensation of Directors and Executive Officers

**Executive Compensation:**

Information as to the aggregate compensation paid or accrued during the last three fiscal years to the Bank's Chief Executive Officer and four other most highly compensated executive officers follows (in thousand pesos):

| **RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES** | | | |
|---|---|---|---|
| **Names** | **Principal Position** | **Aggregate Compensation** (net of | **Bonuses** |

| | | | |
|---|---|---|---|
| | | Bonuses) | |
| | | | |
| **2016 Estimate** | | | |
| Lorenzo V. Tan* | President & Chief Executive Officer | 49,207 | 12,164 |
| Redentor C. Bancod | Senior Executive Vice President | | |
| Michaelangelo R. Aguilar | Executive Vice President | | |
| John Thomas G. Deveras | Senior Executive Vice President | | |
| Emmanuel T. Narciso | First Senior Vice President | | |
| | | | |
| **2015 Actual** | | | |
| Lorenzo V. Tan | President & Chief Executive Officer | 44,250 | 16,534 |
| Redentor C. Bancod | Senior Executive Vice President | | |
| Michaelangelo R. Aguilar | Executive Vice President | | |
| John Thomas G. Deveras | Senior Executive Vice President | | |
| Manuel G. Ahyong, Jr. | Executive Vice President | | |
| | | | |
| **2014 Actual** | | | |
| Lorenzo V. Tan | President & Chief Executive Officer | 39,802 | 101, 247 |
| Redentor C. Bancod | Senior Executive Vice President | | |
| Jose Emmanuel U. Hilado | Senior Executive Vice President | | |
| Ismael R. Sandig | Senior Executive Vice President | | |
| John Thomas G. Deveras | Executive Vice President | | |
| Michael O. de Jesus | Executive Vice President | | |
| | | | |
| **Officers and Directors as a Group Unnamed** | | | |
| 2016 Estimate | | 1,518,018 | 543,219 |
| 2015 Actual | | 1,349,349 | 482,861 |
| 2014 Actual | | 1,124,823 | 526,464 |

* *Mr. Lorenzo V. Tan has resigned effective May 6, 2016. On May 16, 2016, the Board appointed Mr. Gil A. Buenaventura as the new President and Chief Executive Officer effective July 1, 2016. In the meantime, Chairperson Ms. Helen Y. Dee serves as the Interim President and Chief Executive Officer.*

**Profit Sharing Bonus:**

The members of the Board of Directors, the Advisory Board, the Executive Committee and the Officers of the Bank are entitled to profit sharing bonus as provided for in Section 2 Article XI of the By-Laws of the Bank.

Likewise, the members of the Board of Directors and the Advisory Board are entitled to per diem for every meeting they attended. For the years 2015 and 2014, total per diem amounted to P10.440 million and P6.837 million, respectively.

The above-named executive officers and directors, and all officers and directors as a group, do not hold equity warrants or options as the Bank does not have any outstanding equity warrants or options.

**7. <u>Independent Public Accounts</u>**

Punongbayan and Araullo (P&A) acts as the independent auditor of RCBC, RCBC Savings Bank, RCBC Forex Brokers Inc., and RCBC Leasing and Finance Corporation since 2006, of RCBC Capital since 2003, of Merchants Savings and Loan Association, Inc. since 2008 and of RCBC JPL since 2009.

In connection with the audits of the Bank's financial statements for the two (2) most recent years ended December 31, 2015 and 2014, there were no disagreements with P&A on any matter of accounting principles or practices, financial statement disclosures, audit scope or procedure.

P&A has been the independent external auditor of the Bank beginning with the audited financial statements (AFS) for the year ended December 31, 2005 and they will be recommended for re-appointment at the scheduled annual stockholders' meeting. For period 2005-2009 Mr. Leonardo Cuaresma, Jr. was the handling/signing partner of the Bank. Mr. Cuaresma, Jr. was replaced by Mr. Romualdo V. Murcia III as the handling/signing partner in 2010 and 2011. Mr. Murcia was replaced by Mr. Benjamin P. Valdez in 2012 and 2013. Starting 2014, Ms. Maria Isabel E. Comedia is the handling/signing partner of the Bank.

Representatives of P&A are expected to be present at the stockholders' meeting and will have opportunity to make statement if they desire to do so and will be available to answer appropriate questions.

The Members of the Audit Committee are as follows: Armando M. Medina as Chairman and Medel T. Nera, Francisco C. Eizmendi, Jr. as Members.

The Bank is in compliance with the SRC Rule 68 (3)(b)(iv).

**8. <u>Compensation Plans</u>** – Not Applicable

## C. ISSUANCE AND EXCHANGE OF SECURITIES

**9. <u>Authorization or Issuance of Securities Other than for Exchange</u>** – Not applicable

**10. <u>Modification or Exchange of Securities</u>** – Not applicable

**11. <u>Financial and Other Information</u>**

- **a. Financial statements meeting the requirements of SRC Rule 68, as amended**
  Please see Annex "B".

- **b. Management's Discussion and Analysis (MD & A) or Plan of Operation**
  Please see Annex "A"

- **c. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures**
  Please see Annex "A"

- **d. A statement as to whether or not representatives of the principal accountants for the current year and for the most recently completed fiscal year:**
  Representatives of Punongbayan & Araullo are expected to be present at the stockholders' meeting and will have opportunity to make statement if they desire to do so and will be available to answer appropriate questions.

**12. <u>Mergers, Consolidations, Acquisitions and Similar Matters</u>** – Not applicable

**13. <u>Acquisition or Disposition of Property</u>** – Not applicable

**14. <u>Restatement of Accounts</u>** – Not applicable

## D. OTHER MATTERS

### 15. <u>Action with Respect to Reports</u>

The Management Report, as set forth in the Annual Report, and the Minutes of the previous stockholders' regular meeting held on June 29, 2015 will be submitted for stockholders' approval.

Approval of the Annual Report constitutes a ratification of the Bank's performance during the previous fiscal years as contained in the Annual Report.

Approval of the June 29, 2015 Minutes constitutes a ratification of the accuracy and faithfulness of the Minutes to the events that transpired during said meeting, such as, (a) 2014 annual report and audited financial statements, (b) ratification of actions and proceedings of the Board of Directors, different Committees and Management during the year 2014, (c) ratification of actions and proceedings of the Board of Directors on October 29, 2014, particularly its approval of the sale of RCBC shares in RCBC Realty, (d) confirmation of significant transactions with DOSRI and related parties, (e) election of directors, and (f) appointment of external auditor.

The corporate acts of the Board of Directors, different Committees and Management that are subject to ratification are those made from the date of the last annual stockholders' meeting (June 29, 2015) up to the date of the meeting (June 27, 2016). These include, among others, those that involve day-to-day operation, administration and management of the corporate affairs such as approval of loans, restructuring of past due accounts, sale of ROPOAs, appointment/resignation of directors/officers, sanctions/disciplinary measures imposed to erring officers/employees, authority to file criminal/civil complaints.

**16. <u>Matters Not Required to be Submitted</u>** – Not applicable

**17. <u>Amendment of Charter, By-Laws or Other Documents</u>** – Not applicable

**18. <u>Other Proposed Action</u>** – Not applicable

### 19. <u>Voting Procedures</u>

*The vote required for election or approval*.

In the election of Directors, the fifteen (15) nominees with the greatest number of votes will be elected Directors.

In the other proposals or matters submitted to a vote, a vote of the majority or super majority, as the case may be, of the shares of the capital stock of the Bank present in person or represented by proxy at the meeting is necessary for approval of such proposals or matters.

***The method by which votes will be counted***

Each shareholder may vote in person or by proxy the number of shares of stock standing in his name on the books of the Bank. Each share represents one vote. Voting shall be by balloting. An independent third party, Punongbayan & Araullo, shall validate and count the votes to be cast.

No director has informed the Bank of any intention to oppose the matters to be taken up in the annual meeting.

## E. OTHER CERTIFICATIONS

Attached is the written certification by the Corporate Secretary on directors and officers working with the government and undertaking to submit consent from Social Security System as Annexes "C" and "D"

### SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information given in this Information Statement is true, complete and correct. This Statement is signed in the City of Makati on June 3, 2016.

*RIZAL COMMERCIAL BANKING CORPORATION*

By:

Ma Celia H Fernandez

**MARIA CELIA H. FERNANDEZ-ESTAVILLO**
*Corporate Secretary*

*Definitive2016*

**ANNUAL REPORT ACCOMPANYING INFORMATION STATEMENT**
**REQUIRED UNDER SRC RULE 17.1 (b)**

## (A) Audited Consolidated Financial Statements

The Audited Financial Statements of the Bank as of December 31, 2015 are contained in the latest annual report sent to security holders at the Annual Stockholders' meeting on June 27, 2016.

## (B) Management Discussion and Analysis of Financial Conditions and Results of Operations (2013-2015) and Plan of Operation

***2013***

Philippine GDP growth in 2013:+7.2%, the highest in three years and among the fastest in Asia, after +6.8% in 2012. It is slightly above the government's target of 6%-7% for the year and already way above the average of +4.7% posted from 1999 to 2012.

In terms of industrial origin, major factors that contributed to the faster Philippine economic growth in 2013 are: Industry (32.7% of GDP) at +9.5%, after +6.8% in 2012 due to stronger growth in manufacturing; services (56.8% of GDP) at 7.1%, slower against +7.6% in 2012.

In terms of expenditure shares, the major Philippine economic growth contributors in 2013 are: Investments (20.4% of GDP) at +18.2%, after -3.2% in 2012; gov't. spending (10.5% of GDP) +8.6%, vs. +12.2% in 2012; consumer spending (69.4% of GDP) at +5.6%, vs. +6.6% in 2012.

Philippine GNP growth (2013): +7.5%, after +6.5% in 2012.

Despite huge natural calamities in 2013 (earthquake and Super Typhoon Yolanda that both hit Central Philippines), Philippine economic growth remained resilient, partly supported by the continued growth in OFW remittances, sustained strong growth in business process outsourcing (BPO) industry, interest rates that posted new record lows for the year and reduced borrowing/financing costs, continued growth in tourism, increased infrastructure spending.

The global economic growth remained on a recovery mode. The recent pick up in the US economy, the world's largest, warranted the reduction of the Federal Reserve's asset purchases/economic stimulus. The Euro zone already exited from recession. China, the world's second biggest economy, posted a GDP growth of 7.7% in 2013, the slowest since 1999, but remained relatively higher compared to other major global economies. Japan, the world's third largest economy, picked up after coming up with a record economic stimulus package.

Inflation averaged 3.0% in 2013, slightly slower vs. 3.2% in 2012, considered relatively low/benign and at the lower range of the 3%-5% target of the Bangko Sentral ng Pilipinas (BSP).

The 91-Day Treasury Bill Rate ended 2013 at a record low of 0.001%, vs. 0.198% in end-2012. Philippine interest rates mostly reached new record lows again in 2013 amid huge amounts of excess peso liquidity in the financial system partly driven by increased foreign portfolio investments/hot money, stronger economic growth, and relatively benign inflation.

Key Philippine interest rates in the secondary market, as measured by the PDST yields, also reached new record lows in 2013, with short-term tenors ending the year below 1% (near zero) for the second straight year. The 3-month PDST-F yield was steady at 0.49% as of end-2013.

The BSP kept its key overnight interest rate at record low in 2013: 3.50% for its key overnight borrowing rate. The BSP cut its SDA rate in 2013 by a total of -1.50 percentage points to 2.00%.

The low interest rate environment was also supported by relatively narrow Budget Deficit, which stood at –PHP111.5 billion from Jan.-Nov. 2013, after –PHP242.8 billion (or -2.3% of GDP) in 2012 due to higher government revenues despite some pick up in government spending compared to 2012.

National government debt (as of end-2013): +4.5% to PHP5.681 trillion (49.2% of GDP, better vs. 51.5% in 2012), reflecting the country's improved fiscal performance and credit ratings.

The Peso Exchange Rate depreciated vs. the US dollar in 2013, by 3.345 pesos or 8.1% to close at 44.395 in end-2013, among the weakest in more than three years, vs. 41.05 in end-2012.

Gross International Reserves (GIR) as of end-2013: -US$0.6bn or -0.8% to US$83.2 billion or equivalent to 11.9 months worth of imports or nearly three times the international standard of four months.

OFW remittances (2013): +6.4% to US$22.8 billion (8.4% of GDP), after +6.3% growth in 2012.

BPO revenues (2013): +15% to US$13.3 billion (4.9% of GDP).

Net foreign portfolio investments (2013): +US$4.2 billion, after +US$4.7 billion in 2012.

Balance of payments surplus (2013): +US$5.1 billion (+1.9% of GDP), lowest since 2009, narrower vs. +US$9.2 billion in 2012.

OFW remittances, BPO revenues and foreign tourist revenues continued to support consumer spending, which accounted for about 69.4% of the Philippine economy in 2013. Additional OFW, BPO, and tourism jobs partly caused unemployment rate in 2013 to improve to 6.5% from 7.0% in 2012.

Exports (2013): +3.6% to US$54 billion, slower vs. +7.9% in 2012. Imports (2013): -0.7% to US$61.7 billion, vs. +2.7% in 2012. Consequently, Trade Deficit in 2013 narrowed to –US$7.7 billion, vs. –US$10 billion for 2012.

Foreign tourist arrivals in 2013: +9.6% to 4.680 million, after +9.1% growth in 2012. Foreign tourist revenues (2013): +15.1% to US$4.4 billion, after +27.5% growth in 2012.

Net foreign direct investments (Jan.-Nov. 2013): +36.6% year-on-year to US$3.6bn.

Universal/Commercial bank loans (as of end-2013): +16.4% year-on-year to PHP3.777 trillion, slightly faster vs. +16.2% as of end-2012.

Gross non-performing loan (NPL) ratio of universal/commercial banks (as of end-2013): 2.1%.

Domestic liquidity/M3 growth (as of end-2013): +32.7% to PHP6.9tn, more than three times compared to +8.9% in 2012, after the BSP required Investment Management Accounts (IMAs) to exit from its SDA facility by end-Nov. 2013.

The Philippine Stock Exchange Composite Index (PSEi) went up by +1.3% in 2013, to close at 5,889.83, after +33% in 2012.

The major global credit rating agencies have given the Philippines investment grade rating for the first time ever in 2013: Moody's Investors Service on Oct. 3 (with positive outlook, which indicates possible credit rating upgrade for the country), S&P on May 2 (with stable outlook), and Fitch on Mar. 27 (with stable outlook). Consequently, this reflects strong vote of confidence on the Philippines, as a testament to the country's improved economic fundamentals.

### Financial and Operating Highlights

RCBC's Total Assets expanded by 16.11% or P58.530 billion to P421.869 billion while Total Capital Funds went up by 6.28% or P2.646 billion to P44.808 billion. Loans and Receivables, net grew robustly by 24.65% or P47.057 billion from P190.903 billion to P237.960 billion. Net Income reached P5.321 billion while Gross Operating Income reached P23.121 billion. Non-Interest Income declined by 13.51% or P1.532 billion from P11.342 billion to P9.810 billion mainly due to lower trading and securities gains. Operating expenses growth was controlled at 6.76% or P917 million from P13.557 billion to P14.474 billion. Despite pressures on margins due to intense pricing competition and low interest rate environment, Net Interest Income rose by 16.74% or P1.909 billion to P13.311 billion resulting to a NIM of 4.22%, one of the highest in the sector.

| **BALANCE SHEET** | | | |
|---|---|---|---|
| **In Million Pesos** | **2013** | **2012*** | **2011*** |
| Total Assets | 421,869 | 363,339 | 343,786 |
| Investment Securities | 92,700 | 95,179 | 87,728 |
| Loans and Receivables (Net) | 237,960 | 190,903 | 186,192 |
| Capital Funds | 44,808 | 42,162 | 36,146 |

*As Restated

Aside from loans and receivables, the increase in total assets was also driven by the growth in due from other banks, bank premises, furniture, fixtures, & equipment, other resources, and due from Bangko Sentral ng Pilipinas.

Cash and other cash items increased by 4.75% or P446 million from P9.380 billion to P9.826 billion. Due from Bangko Sentral ng Pilipinas, representing 12.44% of total resources, went up by 43.34% or P15.871 billion from P36.620 billion to P52.491 billion. Due from other banks, likewise, increased by 28.20% or P1.658 billion from P5.879 billion to P7.537 billion. Total investment securities reached P92.700 billion and represented 21.97% of total resources.

Total net loans and other receivables stood at P237.960 billion accounting for 56.41% of total resources.

Investments in associates, dropped significantly by 91.56% or P3.613 billion from P3.946 billion to P333 million mainly due to the sale of the Bank's 25% and 49% stakes in RCBC Realty and RCBC Land, respectively.

Bank premises, furniture, fixtures and equipment posted a 17.41% increase or P1.307 billion from P7.507 billion to P8.814 billion due to investments in computer equipment and in the core banking technology, construction cost of RSB Corporate Center building, and branch expansion.

In 2013, the Bank opened fifteen (15) new business centers and extension offices and deployed one hundred forty (140) new ATMs.

Investment properties (net) decreased by 32.50% or P2.205 billion from P6.784 billion to P4.579 billion mainly as a result of the sale of non-performing assets to Phil. Asset Growth One, Inc. in February 2013. Other resources (net) increased by 6.83% or P488 million from P7.141 billion to P7.629 billion due to margin deposits on derivative transactions and acquisition of software.

Deposit liabilities expanded by 20.71% or P51.096 billion from P246.757 billion to P297.853 billion and accounted for 70.60% of total resources. Demand deposits rose significantly by 169.19% or P17.880 billion from P10.568 billion to P28.448 billion while savings deposits increased by 20.54% or P26.763 billion from P130.302 billion to P157.065 and accounted for 37.23% of total resources. Time deposits, likewise, increased modestly by 6.09% or P6.453 billion from P105.887 billion to P112.340 billion and represented 26.63% of total resources.

Owing to higher foreign currency denominated borrowings for this period, bills payable climbed 51.19% or P13.508 billion from P26.387 billion to P39.895 billion and accounted for 9.46% of total resources. Bonds payable, on the other hand, which represented 5.53% of total resources, increased by 8.18% or P1.764 billion from P21.553 billion to P23.317 billion due to revaluation of US dollar denominated Senior Notes. The peso dollar exchange rate closed at P44.40 at end-December 2013, 8.16% weaker than the P41.05 at end-December 2012.

Other liabilities were at P11.459 billion from P10.980 billion brought about by increases in accounts payable, bills purchase-contra account, and import bills under usance.

Subordinated debt was fully paid as a result of the exercise of the Call Option in February 2013 on the P7.0 billion Unsecured Subordinated Notes with an original maturity date of February 22, 2018 and the exercise of the Call Option in December 2013 on the P4.0 billion Unsecured Subordinated Notes with an original maturity date of May 15, 2019.

Total liabilities amounted to P377.061 billion, 17.40% or P55.884 billion higher from P321.177 billion in 2012 and accounted for 89.38% of total resources.

Common stock increased by 11.82% or P1.348 billion from P11.409 billion to P12.757 billion arising from the top-up share placement of 63.65 million shares and IFC capital infusion of 71.15 million shares. Consequently, Capital paid in excess of par also increased by 71.84% or P6.751 billion from P9.397 billion to P16.148 billion.

Fair value losses on AFS amounted to P5.005 billion from fair value gains of 3.145 billion primarily due to the sharp increase in interest rates leading to the depreciation of AFS securities.

Accumulated translation adjustment increased by 5.56% or P4 million from P72 million to P76 million while reserve for trust business also went up 5.78% or P19 million from P329 million to P348 million. Other reserves rose 14.55% or P48 million from negative P330 million to negative P282 million as a result of the disposition of investment in Bankard, Inc. and redemption of RSB's investments in various Special Purpose Companies (SPCs). Retained earnings grew 26.87% or P3.406 billion from P12.676 billion to P16.082 billion driven by the P5.321 billion net profits generated for the year partially offset by dividends paid. Non-controlling interest declined by 23.33% or P7 million from P30 million to P23 million. The Bank's capital, excluding non-controlling interest, reached P44.808 billion, 6.28% or P2.646 billion higher from P42.162 billion in 2012 and accounted for 10.62% of total resources.

**Income Statement**

| **INCOME STATEMENT** | | | |
|---|---|---|---|
| **In Million Pesos** | **2013** | **2012*** | **2011*** |
| Interest Income | 18,824 | 18,757 | 17,020 |
| Interest Expense | 5,513 | 7,355 | 6,176 |
| Net Interest Income | 13,311 | 11,402 | 10,844 |
| Other Operating Income | 9,810 | 11,342 | 10,092 |
| Impairment Losses | 2,054 | 2,486 | 2,538 |
| Operating Expenses | 14,474 | 13,557 | 12,396 |
| Net Income attributable to Parent Company Shareholders | 5,321 | 5,949 | 5,061 |

**As restated*

Total interest income reached P18.824 billion and accounted for 81.42% of total operating income. Interest income from loans and receivables amounted to P14.302 billion and accounted for 61.86% of total operating income. Other interest income increased by 47.75% or P85 million from P178 million to P263 million primarily due to higher interest income from SDA. Interest income from investment securities went down by 10.07% or P477 million from P4.736 billion to P4.259 billion and accounted for 18.42% of total operating income.

Total interest expense decreased by 25.04% or P1.842 billion from P7.355 billion to P5.513 billion owing to lower cost of deposits, which went down by 37.54% or P1.612 billion from P4.294 billion to P2.682 billion. Interest expense from bills payable and other borrowings also went down by 7.51% or P230 million from P3.061 billion to P2.831 billion. As a result, net interest income grew 16.74% or P1.909 billion from P11.402 billion to P13.311 billion and accounted for 57.57% of total operating income.

Provisioning for impairment losses declined by 17.38% or P432 million from P2.486 billion to P2.054 billion and represented 8.88% of total operating income.

Other operating income of P9.810 billion accounted for 42.43% of total operating income and is broken down as follows:

- Trading and securities gain-net was lower by 61.79% or P4.204 billion from P6.804 billion to P2.600 billion due to volatility in global financial markets caused by signals from the US Federal Reserve about the possibility of tapering its bond purchases / economic stimulus.
- Trust fees reached P304 million
- Service fees and commissions expanded by 15.29% or P318 million from P2.080 billion to P2.398 billion
- Foreign exchange gains net went up by 34.69% or P68 million from P196 million to P264 million
- Miscellaneous income increased dramatically by 115.54% or P2.275 billion from P1.969 billion to P4.244 billion due to gains on asset disposal and sale of equity investments and higher income from Bancassurance and other fees.

Operating expenses modestly increased by 6.76% or P917 million from P13.557 billion to P14.474 billion and consumed 62.60% of total operating income.

- Depreciation and amortization increased by 18.31% or P204 million from P1.114 billion to P1.318 billion as a result of the Bank's investments in technology and the setting up of additional and renovation of existing banking channels
- Miscellaneous expenses stood at P5.172 billion, up by 10.16% or P477 million from P4.695 billion mainly due to business expansion
- Occupancy and equipment-related costs grew 5.33% or P121 million from P2.269 billion to P2.390 billion due to the opening of new branches, deployment of offsite ATMs and escalation on rental of existing branches and offices.
- Taxes and licenses went up by 4.91% or P80 million from P1.628 billion to P1.708 billion owing to GRT on the gain realized on sale of RCBC Realty and RCBC Land, and on higher services fees and commissions
- Manpower costs reached P3.886 billion and accounted for 16.81% of total operating income

Provision for tax expense climbed 68.99% or P504 million from P745 million to P1.259 billion mainly due to the final tax related to the sale of RCBC Realty and RCBC Land.

Income attributable to non-controlling interest reached P13 million from P7 million posted during the same period last year.

Despite the drop in Net Income, RCBC still posted a remarkable performance in 2013 as Gross Income, excluding the cyclical trading gains, increased by 28.74% to P20.521 billion. This just reflects management's firm commitment to its strategic objectives of strengthening the core businesses as the primary source of recurring income.

Riding on this thrust, the Bank aims to continue growing its client base by a million a year through expansion in the Bank's distribution and electronic banking channels, brand-building, and introduction of innovative products and services. The Bank will continue to cater to the country's middle class and overseas Filipino workers in the remittance business and give special focus on the growing micro, small, and medium enterprises (MSMEs), and consumer segment. The Bank will also leverage on its tie-ups with various Japanese and other Asian banks to support the business expansion of their SMEs operating here in the country. It will continue to hire more young, dedicated, and competent people and train its existing personnel.

RCBC continues to be in the market for well-managed mid-sized commercial banks and thrift banks which will enable it to increase its asset base, distribution network, and customer reach in a more cost-efficient manner.

For 2013, there were no known trends, demands, commitments, events or uncertainties that would have a material impact on the Bank's liquidity. The Bank does not anticipate having within the next twelve (12) months any cash flow or liquidity problems. It is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. Further, there are no trade payables that have not been paid within the stated terms.

**Performance Indicators**

| **RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES** | | | | |
|---|---|---|---|---|
| | **Audited** | | | |
| | **Consolidated** | | **Parent** | |
| | **2013** | **2012*** | **2013** | **2012*** |
| Return on Average Assets (ROA) | 1.39% | 1.70% | 1.49% | 1.59% |
| Return on Average Equity (ROE) | 12.18% | 16.07% | 12.96% | 15.64% |
| BIS Capital Adequacy Ratio (CAR) | 16.52% | 17.61% | 15.10% | 15.99% |
| Non-Performing Loans (NPL) Ratio | 1.07% | 1.85% | 0.51% | 0.98% |
| Non-Performing Assets (NPA) Ratio | 2.17% | 3.53% | 0.98% | 2.00% |
| Net Interest Margin (NIM) | 4.22% | 3.93% | 3.75% | 3.44% |
| Cost-to-Income Ratio | 61.21% | 59.61% | 57.22% | 58.14% |
| Loans-to-Deposit Ratio | 72.21% | 77.20% | 68.55% | 75.39% |
| Current Ratio | 0.42 | 0.45 | 0.50 | 0.46 |
| Liquid Assets-to-Total Assets Ratio | 0.43 | 0.42 | 0.46 | 0.43 |
| Debt-to-Equity Ratio | 8.42 | 7.62 | 8.07 | 7.40 |
| | | | | |
| Asset-to- Equity Ratio | 9.42 | 8.62 | 9.07 | 8.40 |
| Asset -to- Liability Ratio | 1.12 | 1.13 | 1.12 | 1.14 |
| Interest Rate Coverage Ratio | 2.20 | 1.91 | 2.26 | 1.85 |
| Earnings per Share (EPS) | | | | |
| Basic | Php 3.95 | Php 4.85 | Php 3.52 | Php 3.77 |
| Diluted | Php 3.95 | Php 4.85 | Php 3.52 | Php 3.77 |

**As restated*

**Wholly-Owned/Majority Owned Subsidiaries**

| **RCBC SAVINGS BANK** | **Audited** | |
|---|---|---|
| **In Php 000s** | **2013** | **2012** |
| Net Income | Php 1,212,543 | Php 1,137,192 |
| Return on Average Assets (ROA) | 1.88% | 1.92% |
| Return on Average Equity (ROE) | 16.06% | 15.10% |

| | | |
|---|---|---|
| BIS Capital Adequacy Ratio (CAR) | 16.63% | 14.94% |
| Non-Performing Loans (NPL) Ratio | 2.17% | 3.97% |
| Non-Performing Assets (NPA) Ratio | 7.06% | 9.64% |
| Earnings per Share (EPS) | Php 39.28 | Php 36.84 |

| **RIZAL MICROBANK In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Loss | Php (56,319) | Php (125,004) |
| Return on Average Assets (ROA) | (6.51%) | (13.51%) |
| Return on Average Equity (ROE) | (10.65%) | (19.85%) |
| BIS Capital Adequacy Ratio (CAR) | 69.79% | 98.57% |
| Non-Performing Loans (NPL) Ratio | (0.15%) | 0.22% |
| Non-Performing Assets (NPA) Ratio | 1.49% | 3.62% |
| Earnings per Share (EPS) | Php (6.43) | Php (14.26) |

| **RCBC CAPITAL CORPORATION and Subsidiaries In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income | Php 438,637 | Php 432,942 |
| Return on Average Assets (ROA) | 8.29% | 9.14% |
| Return on Average Equity (ROE) | 11.02% | 12.10% |
| BIS Capital Adequacy Ratio (CAR) | 49.00% | 50.79% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | 0.21% | 0.18% |
| Earnings per Share (EPS) | Php 3.71 | Php 3.66 |

| **RCBC FOREX BROKERS CORPORATION In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income | Php 76,829 | Php 98,020 |
| Return on Average Assets (ROA) | 16.98% | 20.75% |
| Return on Average Equity (ROE) | 34.14% | 39.45% |
| Capital to Total Assets | 42.47% | 72.58% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 153.66 | Php 196.04 |

| **RCBC INTERNATIONAL FINANCE, LTD. and Subsidiary In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Loss | Php (5,384) | Php (10,634) |
| Return on Average Assets (ROA) | (3.97%) | (7.09%) |
| Return on Average Equity (ROE) | (4.09%) | (7.82%) |
| Capital to Total Assets | 100.87% | 91.37% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Loss per Share | Php (2.15) | Php (4.25) |

| **RCBC NORTH AMERICA, INC. In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income (Loss) | Php (22,198) | Php 12,086 |
| Return on Average Assets (ROA) | (18.94%) | 7.70% |
| Return on Average Equity (ROE) | (64.33%) | 35.31% |
| Capital to Total Assets | 39.36% | 27.96% |
| Non-Performing Loans (NPL) Ratio | - | - |

| | | |
|---|---|---|
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings (Loss) per Share | Php (507.66) | Php 276.40 |

| **RCBC TELEMONEY EUROPE S.P.A In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income (Loss) | Php (15,317) | Php (61,592) |
| Return on Average Assets (ROA) | (4.99%) | (27.36%) |
| Return on Average Equity (ROE) | (135.93%) | (530.67%) |
| Capital to Total Assets | 13.04% | (15.60%) |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings (Loss) per Share (EPS) | Php (25.53) | Php (102.65) |

| **RCBC-JPL HOLDING COMPANY, INC. (Formerly JP Laurel Bank, Inc.) In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Loss | Php 2,873 | Php (92,540) |
| Return on Average Assets (ROA) | 1.10% | (25.88%) |
| Return on Average Equity (ROE) | (2.52%) | (160.13%) |
| Capital to Total Assets | (47.64%) | (44.49%) |
| Non-Performing Loans (NPL) Ratio | 40.03% | 99.49% |
| Non-Performing Assets (NPA) Ratio | 59.72% | 113.31% |
| Loss per Share (EPS) | Php 2.59 | Php (83.40) |

| **NIYOG PROPERTY HOLDINGS, INC. In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income | Php 20,391 | Php 29,154 |
| Return on Average Assets (ROA) | 5.88% | 8.60% |
| Return on Average Equity (ROE) | 6.00% | 8.92% |
| Capital to Total Assets | 98.97% | 98.11% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 14.66 | Php 20.96 |

| **RCBC LEASING AND FINANCE CORP. and Subsidiary In Php 000s** | **Audited** | |
|---|---|---|
| | **2013** | **2012** |
| Net Income (Loss) | Php 17,147 | Php (92,279) |
| Return on Average Assets (ROA) | 0.45% | (0.11%) |
| Return on Average Equity (ROE) | 3.24% | (0.91%) |
| Capital to Total Assets | 13.31% | 16.48% |
| Non-Performing Loans (NPL) Ratio | 22.92% | 25.56% |
| Non-Performing Assets (NPA) Ratio | 17.79% | 19.46% |
| Earnings (Loss) per Share (EPS) | Php 0.06 | Php (0.32) |

*Notes to the Computations:*

1. *Consolidated and Parent Company ROA and ROE ratios were taken from the corresponding audited financial statements. ROA ratio of the subsidiaries was determined based on the average of the quarterly ending balances of total assets, audited and/or unaudited. ROE ratio of the subsidiaries was likewise computed based on the average of the quarterly ending balances of total equity, audited and/or unaudited.*

2. *CAR covers combined credit, market and operational risks. Where the BIS CAR was not computed, the simple Capital to Total Assets ratio formula was used.*

3. *NPL ratio is determined by using the following formula: (Total NPLs net of total specific provision for losses) / (Total gross loan portfolio)*

4. *NPA ratio is determined by using the following formula: (Net NPLs + Gross ROPA + Non performing SCR) / Gross Total Assets.*

5. *For some subsidiaries, the NPL/NPA ratios were not computed since these ratios were not applicable.*

***2014***

Philippine GDP growth in 2014 was at 6.1%, the third consecutive year above 6%, slower vs. 7.2% in 2013. However, this is the second fastest in Asia, after China's 7.4%, which was the slowest in 24 years.

Philippine GNP growth (2014) was at 6.3%, compared to 7.5% in 2013.

In terms of industrial origin, major contributors to the Philippine economic growth in 2014 were: Services (56.7% of GDP) at 6%, slightly faster than the 5.7% in 2013 and Agriculture (10% of GDP) at 1.9%, after 1.1% in 2013. Industry (33.3% of GDP) grew by 7.5%, slower vs. 9.3% in 2013.

In terms of expenditure shares, the major contributors to the country's economic growth in 2014 were: Exports (47.2% of GDP) at 12.1% vs. -1.1% in 2013; Consumer Spending (68.9% of GDP) at 5.4%, vs. 5.7% in 2013; and Government Spending (10.3% of GDP) at 1.8%, slower vs. 7.7% in 2013.

Philippine economic growth remained resilient by growing for 64 straight quarters, despite the slower global economic growth brought about by the slowdown in China, recession in Japan, risk of recession and deflation in the Euro zone. Softer global economic growth also supported the drop in world oil prices by nearly 50% in 2014 amid increased US crude oil supplies due to shale production. The Philippines, which imports almost all its oil, benefited from this in terms of lower inflation and reduced import bill.

The US economy, the world's biggest, continued to recover in 2014, fundamentally supporting the decision of the US Federal Reserve to taper its bond purchases/QE3, which ended in October 2014. This resulted to some market volatility in the global financial markets.

The local economy was partly supported by the continued growth in OFW remittances, sustained strong growth in the BPO industry, still relatively low interest rates compared to recent years that spurred greater economic activity, increased foreign direct investments, pick up in manufacturing and exports, continued growth in tourism, and rollout of more infrastructure/PPP projects.

Inflation averaged 4.1% in 2014, higher compared to 3% in 2013, slightly above the middle of the 3% to 5% target range of the Bangko Sentral ng Pilipinas (BSP), partly due to the spill over effects of Supertyphoon Yolanda in the early part of 2014 when prices of food, especially rice, increased. However, inflation already eased to 2.7% in December 2014 due to the sharp drop in global oil prices.

The 91-day Treasury bill yield ended 2014 at 1.416%, significantly up from the record low of almost zero or 0.001% in end-2013, but still considered relatively low compared to recent years.

Key Philippine interest rates in the secondary market, as measured by the PDST yields, were mostly higher in 2014, with short-term tenors ended the year above 2%, with the biggest increase of 1.70-2.12 percentage points for the year, while long-term tenors went up by less than 1 percentage point. The 3-month PDST-R2 yield was at 2.37% as of end-2014, sharply higher by 2.05 percentage points for the year.

The BSP raised its key overnight interest rates in 2014, by 0.50 percentage point, to 4.00% for its key overnight borrowing rate, from the record low of 3.50% in end-2013. The also BSP increased its SDA rate in 2014 by a total of 0.50 percentage point to 2.50%, from the record low of 2.00% in end-2013.

Interest rates still considered relatively low compared to recent years, despite the uptick in 2014, still translated to relatively low borrowing costs that encouraged greater economic activities in terms of creating new businesses and the expansion of existing businesses. This could also have spurred greater demand for loans/borrowings, amid improved economic and credit fundamentals for the country recently and the corresponding need to service the financing requirements of the local economy, which was among the fastest growing in Asia.

The low interest rate environment was also supported by relatively narrow budget deficit, which stood at PHP73.1 billion (or 0.6% of GDP) in 2014, the narrowest in 7 years after a deficit of PHP164.1 billion (or 1.4% of GDP) in 2013 due to faster growth in government revenues despite and slower growth in government spending.

National government debt as of end-2014 was up 1% to PHP5.735 trillion, reflecting the country's improved fiscal performance and credit ratings. The country's debt-to-GDP ratio further eased to 45.4% as of end-2014, vs. 49.2% in end-2013. This supported the further credit rating upgrades on the Philippines by most of the biggest credit rating agencies in 2014, from the minimum investment grade rating achieved for the first time in 2013.

The peso exchange rate depreciated vs. the US dollar in 2014, by 0.325 pesos or 0.7% to close at 44.72 in end-2014, among the weakest in more than four years, compared to 44.39 in end-2013. This benefited exporters, OFWs and their dependents, and others that earn in foreign currencies, in terms of greater peso proceeds of their foreign currency earnings.

Gross international reserves (GIR) as of end-2014: -US$3.6bn or -4.4% to US$79.5 billion or equivalent to 10.2 months' worth of imports or nearly three times the international standard of four months.

Overseas Filipino workers (OFW) remittances up by 5.8% to US$24.3 billion (8.5% of GDP), slower than the 7.4% growth in 2013.

Revenues from the Business Process Outsourcing (BPO) industry was up by 17% to US$18 billion (6.3% of GDP).

Net foreign portfolio investments were at negative US$0.310 billion, after positive US$4.2 billion in 2013

Balance of payments (BOP) deficit was at US$2.1 billion (1% of GDP), after a BOP surplus of US$5.1 billion (1.9% of GDP) in 2013.

OFW remittances, BPO revenues, foreign tourist revenues continued to support consumer spending, which accounted for about 68.9% of the Philippine economy in 2014. Additional OFW, BPO, and tourism jobs partly caused unemployment rate in 2014 to improve to 6% from 7.1% in 2013.

Total exports of the country for 2014 were up 9% to US$61.8 billion, despite softer global economic growth. Total imports in 2014 higher by 2.4% to US$63.9 billion, after lower global oil/commodity prices reduced the country's import bill. Consequently, trade deficit in 2014 significantly narrowed to US$2.1 billion, vs. the deficit of US$5.7 billion in 2013 after the sharp drop in global oil prices by nearly 50% in 2014.

Net foreign direct investments in 2014: +66% year-on-year to US$6.2 billion, reflecting the improved economic and credit fundamentals of the Philippines, as attested by the further upgrade of the country's credit ratings by most of the biggest credit rating agencies, to a notch above the minimum investment grade, which increased international investor confidence on the country.

On the Philippine banking industry, the total loans of banks, as of end-2014 was up by 19% to PHP5.8 trillion, faster than the 15.8% growth as of end-2013, partly spurred by relatively low interest rates and sustained economic growth. Gross non-performing loan (NPL) ratio of all banks (including interbank loans) as of end-2014 eased to 2.31%, from 2.77% as of end-2013.

Domestic liquidity/M3 growth (as of end-2014): +9.6% to PHP7.6 trillion, significantly slower vs. +31.8% as of end-2013, after the BSP increased the reserve requirements on banks' deposits in 2014 by a total of 2 percentage points, partly in an effort to ensure financial stability.

The Philippine Stock Exchange Composite Index (PSEi): +22.8% in 2014, to close at 7,230.57, significantly better than +1.3% in 2013. It reached a record high of 7,413.62 on September 25, 2014. This reflects the country's improved economic fundamentals that resulted to better corporate earnings amid relatively low interest rates.

The foreign tourist arrivals growth in 2014 slowed down at 3.2% to 4.833 million, compared to the 9.6% growth in 2013. Foreign tourist revenues grew by 10% to US$4.84 billion.

The country's credit rating was upgraded further in 2014 by most of the biggest credit rating agencies to a notch above the minimum investment grade, the highest ever, after getting its first ever investment grade rating in 2013, reflecting further improvements in the country's economic and credit fundamentals.

**Financial and Operating Highlights**

RCBC's Total Assets increased by 8.54% or P36.036 billion to P457.905 billion while Total Capital Funds went up by 18.57% or P8.323 billion to P53.131 billion. Loans and Receivables, net expanded by 9.92% or P23.614 billion from P237.960 billion to P261.574 billion. Net Income reached P4.410 billion while Gross Operating Income reached P22.069 billion. Non-Interest Income showed a decline of 27.60% or P2.708 billion from P9.810 billion to P7.102 billion mainly due to one-off gains in 2013 arising from the sale of NPAs and equity investments. Operating expenses were well-managed at P14.236 billion, 1.64% or P238 million lower from P14.474 billion the previous year. Even with the intense pricing competition and low interest rate environment, Net Interest Income rose by 12.44% or P1.656 billion to P14.967 billion resulting to a NIM of 4.30%, one of the highest in the sector.

| **BALANCE SHEET** | | | |
|---|---|---|---|
| **In Million Pesos** | **2014** | **2013** | **2012*** |
| Total Assets | 457,905 | 421,869 | 363,339 |
| Investment Securities | 100,790 | 92,700 | 95,179 |
| Loans and Receivables (Net) | 261,574 | 237,960 | 190,903 |
| Total Deposits | 315,761 | 297,853 | 246,757 |
| Capital Funds | 53,131 | 44,808 | 42,162 |

Cash and other cash items increased by 33.17% or P3.259 billion from P9.826 billion to P13.085 billion. Due from Bangko Sentral ng Pilipinas, representing 10.07% of total resources, decreased by 12.18% or P6.392 billion from P52.491 billion to P46.099 billion. Due from other banks increased by 120.25% or P9.063 billion from P7.537 billion to P16.600 billion. With the Bank's adoption of PFRS 9, investment securities are now classified into At Fair Value Through Profit or

Loss, At Fair Value Through Other Comprehensive Income, and At Amortized Cost amounting to P16.458 billion, P4.537 billion, and P79.795 billion, respectively. Total investment securities reached P100.790 billion and represented 22.01% of total resources.

Total net loans and other receivables went up by 9.92% or P23.614 billion from P237.960 billion to P261.574 billion accounting for 57.12% of total resources.

Investment properties (net) increased by 16.95% or P776 million from P4.579 billion to P5.355 billion mainly due to the reclassification of a portion of RSB Corporate Center that is held for lease from Bank premises, furniture, fixtures and equipment to Investment properties. Other resources (net) decreased by 7.59% or P579 million from P7.629 billion to P7.050 billion due to decreases in real estate properties for sale, assets held for sale and margin deposits.

Deposit liabilities expanded by 6.01% or P17.908 billion from P297.853 billion to P315.761 billion and accounted for 68.96% of total resources. Demand deposits rose by 13.18% or P3.749 billion from P28.448 billion to P32.197 billion while savings deposits reached P164.269 billion and accounted for 35.87% of total resources. Time deposits, likewise, increased modestly by 6.19% or P6.955 billion from P112.340 billion to P119.295 billion as part of the Bank's deliberate strategy to manage funding cost. CASA-to-Total deposits ratio stood at 62.22% as of end-2014.

Bills payable reached P39.799 billion and accounted for 8.69% of total resources. Bonds payable, on the other hand reached P23.486 billion and accounted for 5.13% of total resources.

On May 9, 2014, the BSP authorized the Bank to issue up to ₱10.0 billion of Tier 2 Notes in one or more issuances. On June 27, 2014, the Bank issued P7 Billion Basel 3-compliant Tier 2 Unsecured Subordinated Notes bearing a coupon of 5.375%. On September 5, 2014, the Bank issued an additional ₱3.0 billion Tier 2 Capital Notes that constituted a further issuance of, and formed a single series with the existing ₱7.0 billion Unsecured Subordinated Notes. As a result, Subordinated debt stood at P9.921 billion as of end-2014.

Total liabilities amounted to P404.774 billion and accounted for 88.40% of total resources.

Revaluation reserves on available-for-sale securities became zero from negative P5.005 billion primarily due to the Bank's adoption of PFRS 9 resulting to classification of significant portion of investment securities to amortized cost. Accordingly, revaluation reserves on financial assets at fair value through other comprehensive income reached P835 million. Accumulated translation adjustment decreased by 6.58% or P5 million from P76 million to P71 million due to the impact of foreign exchange movement.

Other reserves decreased by 65.60% or P185 million from negative reserves of P282 million to P97 million as a result of the execution of the retirement of preferred shares of RSB's Special Purpose Companies (SPCs) during the last quarter of 2014 and consequently, the transfer of the redemption loss amounting to P185 million previously recognized in 2013 from other reserves to surplus. Retained earnings grew 14.21% or P2.285 billion from P16.082 billion to P18.367 billion driven by the P4.410 billion net profits generated for the year and partially offset by dividends paid. The Bank's capital, excluding non-controlling interest, reached P53.109 billion, 18.59% or P8.324 billion higher from P44.785 billion in 2013 and accounted for 11.60% of total resources.

**Income Statement**

| **INCOME STATEMENT** | | | |
|---|---|---|---|
| **In Million Pesos** | **2014** | **2013** | **2012** |
| Interest Income | 20,200 | 18,824 | 18,757 |
| Interest Expense | 5,233 | 5,513 | 7,355 |
| Net Interest Income | 14,967 | 13,311 | 11,402 |
| Other Operating Income | 7,102 | 9,810 | 11,342 |

| | | | |
|---|---|---|---|
| Impairment Losses | 2,509 | 2,054 | 2,486 |
| Operating Expenses | 14,236 | 14,474 | 13,557 |
| Net Income attributable to Parent Company Shareholders | 4,411 | 5,321 | 5,949 |

Total interest income reached P20.200 billion and accounted for 91.53% of total operating income. Interest income from loans and receivables went up by 11.60% or P1.659 billion from P14.302 billion to P15.961 billion and accounted for 72.32% of total operating income. Other interest income decreased by 19.01% or P50 million from P263 million to P213 million primarily due to lower interest income from SDA. Interest income from investment securities reached P4.026 billion and accounted for 18.24% of total operating income.

Total interest expense went down by 5.08% or P280 million from P5.513 billion to P5.233 billion and accounted for 23.71% of total operating income. Interest expense from deposit liabilities reached P2.581 billion while interest expense from bills payable and other borrowings reached P2.652 billion, representing 11.70% and 12.02% of total operating income, respectively. As a result, net interest income increased by 12.44% or P1.656 billion from P13.311 billion to P14.967 billion and accounted for 67.82% of total operating income.

The Bank boosted its reserve cover with impairment losses higher by 22.15% or P455 million from P2.054 billion to P2.509 billion and represented 11.37% of total operating income.

Other operating income of P7.102 billion accounted for 32.18% of total operating income and is broken down as follows:

- Trading and securities gain-net reached P2.545 billion and accounted for 11.53% of total operating income
- Service fees and commissions reached P2.297 billion and accounted for 10.41% of total operating income
- Foreign exchange gains reached P237 million while Trust fees reached P297 million
- Miscellaneous income decreased by 59.33% or P2.518 billion from P4.244 billion to P1.726 billion mainly due to the extra-ordinary gains on sale of NPAs and equity investments recorded in 2013

Operating expenses reached P14.236 billion and utilized 64.51% of total operating income.

- Depreciation and amortization increased by 19.65% or P259 million from P1.318 billion to P1.577 billion as a result of the Bank's investments in technology and setting up of additional and renovation of existing banking channels as well as the depreciation of the RSB Corporate Center
- Taxes and licenses went down by 14.34% or P245 million from P1.708 billion to P1.463 billion due to lower gross income and higher taxes and license in 2013 coming from the GRT on the gains realized on the sale of RCBC Realty and RCBC Land
- Miscellaneous expenses decreased by 10.98% or P568 million from P5.172 billion to P4.604 billion due to lower litigation expenses related to foreclosed assets, stationery and office supplies expense, advertising expense, and other credit card-related expenses
- Occupancy and equipment-related costs increased by 5.77% or P138 million from P2.390 billion to P2.528 billion due to the opening of new branches, deployment of offsite ATMs and escalation on rental of existing branches and offices.
- Manpower costs reached P4.064 billion and consumed 18.41% of total operating income

Provision for tax expense declined by 27.40% or P345 million from P1.259 billion to P914 million mainly due to the extra-ordinary final tax related to the sale of RCBC Realty and RCBC Land in 2013.

Income attributable to non-controlling interest reached negative P1 million from P13 million posted during the same period last year.

Despite the drop in Net Income, RCBC still posted a remarkable performance in 2014 as Core Income excluding the cyclical trading gains and extra-ordinary income increased by 26%. This just affirms the commitment of management to the execution of its strategic objectives in order to build-up the core businesses as the primary source of recurring income. Armed with this mantra, the Bank aims to continue growing its client base and achieve 12 million customers in 5 years through expansion in the Bank's distribution and electronic banking channels, brand-building, and introduction of innovative products and services. The Bank will continue to cater to the country's middle class and overseas Filipino workers in the remittance business and give special focus on the growing micro, small, and medium enterprises (MSMEs), and consumer segment. The Bank will also leverage on the expected entry of Cathay Life Insurance as a strategic investor and tie-ups with various Japanese and other Asian banks to support the business expansion of their SME clients operating here in the country. It will continue to hire more young, dedicated, and competent people and train its existing personnel.

For 2015, there are no known trends, demands, commitments, events or uncertainties that would have a material impact on the Bank's liquidity. The Bank does not anticipate having any cash flow or liquidity problems within the next twelve (12) months. It is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. Further, there are no trade payables that have not been paid within the stated terms.

**Performance Indicators**

| **RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES** | | | | |
|---|---|---|---|---|
| | **Audited** | | | |
| | **Consolidated** | | **Parent** | |
| | **2014** | **2013** | **2014** | **2013** |
| Return on Average Assets (ROA) | 1.04% | 1.39% | 1.27% | 1.49% |
| Return on Average Equity (ROE) | 9.23% | 12.18% | 10.80% | 12.96% |
| BIS Capital Adequacy Ratio (CAR) | 15.37% | 16.52% | 14.93% | 15.10% |
| Non-Performing Loans (NPL) Ratio | 0.90% | 1.07% | 0.24% | 0.51% |
| Non-Performing Assets (NPA) Ratio | 1.72% | 2.10% | 0.47% | 1.02% |
| Net Interest Margin (NIM) | 4.30% | 4.22% | 3.71% | 3.75% |
| Cost-to-Income Ratio | 64.51% | 61.21% | 59.70% | 57.22% |
| Loans-to-Deposit Ratio | 82.19% | 72.21% | 82.09% | 68.55% |
| Current Ratio | 0.49 | 0.42 | 0.48 | 0.50 |
| Liquid Assets-to-Total Assets Ratio | 0.21 | 0.43 | 0.21 | 0.46 |
| Debt-to-Equity Ratio | 7.62 | 8.42 | 7.07 | 8.07 |
| | | | | |
| Asset-to- Equity Ratio | 8.62 | 9.42 | 8.07 | 9.07 |
| Asset -to- Liability Ratio | 1.13 | 1.12 | 1.14 | 1.12 |
| Interest Rate Coverage Ratio | 2.02 | 2.20 | 2.16 | 2.27 |
| Earnings per Share (EPS) | | | | |
| Basic | Php 3.11 | Php 3.95 | Php 3.17 | Php 3.52 |
| Diluted | Php 3.11 | Php 3.95 | Php 3.17 | Php 3.52 |

**Wholly-Owned/Majority Owned Subsidiaries**

| **RCBC SAVINGS BANK** | **Audited** | |
|---|---|---|
| **In Php 000s** | **2014** | **2013** |
| Net Income | Php 1,040,096 | Php 1,212,543 |
| Return on Average Assets (ROA) | 1.42% | 1.88% |
| Return on Average Equity (ROE) | 13.80% | 16.06% |

| | | |
|---|---|---|
| BIS Capital Adequacy Ratio (CAR) | 14.73% | 16.63% |
| Non-Performing Loans (NPL) Ratio | 2.57% | 2.17% |
| Non-Performing Assets (NPA) Ratio | 6.35% | 7.06% |
| Earnings per Share (EPS) | Php 33.69 | Php 39.28 |

| **RIZAL MICROBANK In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Loss | Php (74,772) | Php (56,319) |
| Return on Average Assets (ROA) | (9.12%) | (6.51%) |
| Return on Average Equity (ROE) | (16.47%) | (10.65%) |
| BIS Capital Adequacy Ratio (CAR) | 56.99% | 69.79% |
| Non-Performing Loans (NPL) Ratio | (0.61%) | (0.15%) |
| Non-Performing Assets (NPA) Ratio | 1.19% | 1.49% |
| Earnings per Share (EPS) | Php (8.53) | Php (6.43) |

| **RCBC CAPITAL CORPORATION and Subsidiaries In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income | Php 464,604 | Php 438,637 |
| Return on Average Assets (ROA) | 9.78% | 8.29% |
| Return on Average Equity (ROE) | 11.79% | 11.02% |
| BIS Capital Adequacy Ratio (CAR) | 41.41% | 49.00% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | 0.05% | 0.21% |
| Earnings per Share (EPS) | Php 3.93 | Php 3.71 |

| **RCBC FOREX BROKERS CORPORATION In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income | Php 76,149 | Php 76,829 |
| Return on Average Assets (ROA) | 16.15% | 16.98% |
| Return on Average Equity (ROE) | 33.94% | 34.14% |
| Capital to Total Assets | 62.32% | 42.47% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 152.30 | Php 153.66 |

| **RCBC INTERNATIONAL FINANCE, LTD. and Subsidiary In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Loss | Php (4,367) | Php (5,384) |
| Return on Average Assets (ROA) | (3.25%) | (3.97%) |
| Return on Average Equity (ROE) | (3.35%) | (4.09%) |
| Capital to Total Assets | 97.24% | 100.87% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Loss per Share | Php (1.75) | Php (2.15) |

| **RCBC NORTH AMERICA, INC. In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income (Loss) | Php (13,697) | Php (22,198) |
| Return on Average Assets (ROA) | (29.56%) | (18.94%) |
| Return on Average Equity (ROE) | (133.52%) | (64.33%) |
| Capital to Total Assets | (0.75%) | 39.36% |
| Non-Performing Loans (NPL) Ratio | - | - |

| | | |
|---|---|---|
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings (Loss) per Share | Php (313.24) | Php (507.66) |

| **RCBC TELEMONEY EUROPE S.P.A<br>In Php 000s** | **Unaudited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income (Loss) | Php 15,513 | Php (15,317) |
| Return on Average Assets (ROA) | 4.84% | (4.99%) |
| Return on Average Equity (ROE) | 500.92% | (135.93%) |
| Capital to Total Assets | (1.09%) | 13.04% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings (Loss) per Share (EPS) | Php 155.13 | Php (25.53) |

| **RCBC-JPL HOLDING COMPANY, INC. (Formerly JP Laurel Bank, Inc.)<br>In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Loss | Php 1,332 | Php 2,873 |
| Return on Average Assets (ROA) | 0.54% | 1.10% |
| Return on Average Equity (ROE) | (1.19%) | (2.52%) |
| Capital to Total Assets | (45.73%) | (47.64%) |
| Non-Performing Loans (NPL) Ratio | 42.56% | 40.03% |
| Non-Performing Assets (NPA) Ratio | 58.02% | 59.72% |
| Loss per Share (EPS) | Php 0.01 | Php 2.59 |

| **NIYOG PROPERTY HOLDINGS, INC.<br>In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income | Php 27,309 | Php 20,391 |
| Return on Average Assets (ROA) | 3.36% | 5.88% |
| Return on Average Equity (ROE) | 3.45% | 6.00% |
| Capital to Total Assets | 94.63% | 98.97% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 19.63 | Php 14.66 |

| **RCBC LEASING AND FINANCE CORP. and Subsidiary<br>In Php 000s** | **Audited** | |
|---|---|---|
| | **2014** | **2013** |
| Net Income (Loss) | Php 24,456 | Php 17,147 |
| Return on Average Assets (ROA) | 0.63% | 0.45% |
| Return on Average Equity (ROE) | 4.65% | 3.24% |
| Capital to Total Assets | 14.05% | 13.31% |
| Non-Performing Loans (NPL) Ratio | 19.70% | 22.92% |
| Non-Performing Assets (NPA) Ratio | 16.77% | 17.79% |
| Earnings (Loss) per Share (EPS) | Php 0.05 | Php 0.06 |

*Notes to the Computations:*

1. *Consolidated and Parent Company ROA and ROE ratios were taken from the corresponding audited financial statements. ROA ratio of the subsidiaries was determined based on the average of the quarterly ending balances of total assets, audited and/or unaudited. ROE ratio of the subsidiaries was likewise computed based on the average of the quarterly ending balances of total equity, audited and/or unaudited.*

2. *CAR covers combined credit, market and operational risks. Where the BIS CAR was not computed, the simple Capital to Total Assets ratio formula was used.*

3. *NPL ratio is determined by using the following formula: (Total NPLs net of total specific provision for losses) / (Total gross loan portfolio)*

4. *NPA ratio is determined by using the following formula: (Net NPLs + Gross ROPA + Non performing SCR) / Gross Total Assets.*

5. *For some subsidiaries, the NPL/NPA ratios were not computed since these ratios were not applicable.*

***2015***

Philippine GDP growth in 2015 was at 5.8%, slower vs. 6.1% in 2014, but still among the fastest growing economies, not only in ASEAN, but in the whole of Asia, amid improved economic and credit fundamentals, such as favorable demographics (i.e. demographic sweet spot or majority of the population reached working age in 2015), relatively low interest rates that continued to spur more investments and overall economic growth, as fundamentally supported by benign inflation amid low prices of crude oil and other global commodities. Continued growth in OFW remittances, BPO revenues, and foreign tourist revenues continued to support consumer spending, which accounted for about 69.3% of the Philippine economy in 2015. The ASEAN Economic Integration started in end-2015 and is expected to lead to greater economic growth, going forward.

Philippine GNP growth (2015) was at 5.4%, slower compared to 5.8% in 2014.

In terms of industrial origin, Services (57% of GDP) grew by 6.7%, faster than 5.9% in 2014, among the major contributors to economic growth. Industry (33.5% of GDP) grew by 6%, slower vs. 7.9% in 2014, amid slower growth in exports due to the global economic slowdown. Agriculture (9.5% of GDP) grew by 0.2%, slower vs. 1.6% in 2014 after El Nino in the early part of 2015 and typhoon in the latter part of the year.

In terms of expenditure shares, the major contributors to the country's economic growth in 2015 were: Consumer Spending (69.3% of GDP) at 6.2%, faster vs. 5.4% in 2014, Investments (23.5% of GDP) at 13.6%, faster vs. 5.4% in 2014, and Government Spending (10.4% of GDP) at 9.4%, faster vs. 1.7% in 2014. However, Exports (46.8% of GDP) grew by at 5.5% in 2015, slower vs. 11.3% in 2014 amid the slower global economic growth, especially in China, the world's second biggest economy.

Philippine economic growth remained resilient by growing for 68$^{th}$ straight quarter, despite the slower global economic growth brought about by the slowdown in China, recession in Japan, risk of recession, deflation in the Euro zone, and increased global market volatility. Softer global economic growth also supported the drop in world oil prices by at least 30% in 2015 amid increased US crude oil supplies due to shale production, decreased global oil demand, and increased crude oil production. The Philippines, which imports almost all its oil, benefited from this in terms of lower inflation and reduced import bill.

The US economy, the world's biggest, continued to recover in 2015, fundamentally supporting the decision of the US Federal Reserve to increase key monetary interest rates by 0.25 basis points on December 16, 2015. This resulted partly to some volatility in the global financial markets.

China, the world's second largest economy and among the biggest importers of commodities, has experienced slower economic growth. This partly led to the devaluation of yuan in August 2015, which partly triggered the global market sell-off. The resulting lower prices of crude oil and other global commodities may have benefited the Philippines, which imports almost all of its oil, but partly led to increased global market volatility.

The local economy was partly supported by the continued growth in OFW remittances, sustained strong growth in the BPO industry, still relatively low interest rates compared to recent years that spurred greater economic activity, pick up in manufacturing, continued growth in tourism, and rollout of more infrastructure/PPP projects.

Inflation averaged 1.4% in 2015, sharply lower compared to 4.1% in 2014, below the 2%-4% target range of the Bangko Sentral ng Pilipinas (BSP), largely due to the continued decline global crude oil/commodity prices. Inflation reached a record low of 0.4% in October 2015.

The 91-day Treasury bill yield ended 2015 at 1.836%, up from 1.416% in 2014, and significantly up from a record low of 0.001% in end-2013, but still considered relatively low compared to recent years.

Key Philippine interest rates in the secondary market, as measured by the PDST yields, were mostly higher in 2015, with short-term tenors ended the year above 2%, with an increase of 0.29-0.49 percentage points for the year, while long-term tenors went up by at least 0.50 percentage points. The 3-month PDST-R2 yield was at 2.67% as of end-2015, higher by 0.29 percentage points for the year.

The BSP maintained its key overnight interest rates in 2015 at 4.00% for its key overnight borrowing rate, from the record low of 3.50% in end-2013. The also BSP maintained
its SDA rate in 2015 at 2.50%, from the record low of 2.00% in end-2013.

Interest rates still considered relatively low compared to recent years, despite the uptick in 2015, and still translated to relatively low borrowing costs that encouraged greater economic activities in terms of creating new businesses and the expansion of existing businesses. This could also have spurred greater demand for loans/borrowings, amid improved economic and credit fundamentals for the country recently and the corresponding need to service the financing requirements of the local economy, which was among the fastest growing in Asia.

The low interest rate environment was also supported by relatively narrow budget deficit, which stood at –PHP121 billion from January to December 2015, the narrowest in 8 years after a deficit of -PHP73.1 billion (or -0.6% of GDP) in 2014 due to faster growth in government revenues despite and slower growth in government spending.

National government debt as of end-2015 was up 3.8% to PHP5.954tn, reflecting the country's improved fiscal performance and credit ratings. The country's debt-to-GDP ratio eased to 44.8% as of end-2015, vs. 45.4% in end-2014. This supported by the sustained accelerated pace of economic growth in tandem with disciplined fiscal spending that moderated borrowing requirements for the year

The peso exchange rate depreciated vs. the US dollar in 2015, by 2.34 pesos or 5.2% to close at 47.06 in end-2015, among the weakest in more than 6 years, compared to 44.72 in end-2014. This benefited exporters, OFWs and their dependents, and others that earn in foreign currencies, in terms of greater peso proceeds of their foreign currency earnings.

Gross international reserves (GIR) as of end-2015: +US$1.126bn or +1.4% to US$80.7 billion or equivalent to 10.2 months' worth of imports or more than two times the international standard of 4 months.

Overseas Filipino workers (OFW) remittances up by 4.6% to US$25.77 billion from January to December 2015, slower than the 5.9% growth in 2014 at US$24.348 billion (8.6% of GDP). Revenues from the Business Process Outsourcing (BPO) industry were up by 17% to US$22 billion (7.5% of GDP), vs. 22% growth in 2014 at US$18.9 billion (6.6% of GDP).

Net foreign portfolio investments outflows in 2015: -US$0.600 billion, wider vs. –US$0.310 billion in 2014. Balance of payments (BOP) surplus was at US$2.616 billion (0.9% of GDP), after a BOP deficit of US$2.858 billion (1% of GDP) in 2014. OFW remittances, BPO revenues, foreign tourist revenues continued to support structural US dollar inflows into the country, as well as consumer spending, which accounted for about 69.3% of the local economy. Additional OFW, BPO, and tourism jobs and improved local employment conditions partly caused unemployment rate to improve to 6.3% in 2015, vs. 6.8% in 2014.

Total exports of the country for 2015 were down by -5.6% to US$58.648 billion amid slower global economic growth. Total imports from January to December 2015 grew 2.0% to US$66.67 billion, reflecting the requirements of a growing economy. Consequently, trade deficit from January to December 2015 widened to US$8.037 billion, vs. the deficit of US$3.296 billion in 2014 amid the decline in export and the growth in imports.

Net foreign direct investments from January to December 2015: -0.3% year-on-year to US$5.72 billion, still near the record high of US$5.740 billion in 2014 amid the improved economic and credit fundamentals of the Philippines, as attested by the further upgrade of the country's credit ratings by most of the biggest credit rating agencies, to a notch above the minimum investment grade, which increased international investor confidence on the country.

On the Philippine banking industry, the total loans of banks, as of end-2015 was up by 12% to PHP6.530 trillion, slower than the 19.1% growth as of end-2014, which was partly spurred by relatively low interest rates and sustained economic growth. Gross non-performing loan (NPL) ratio of all banks (including interbank loans) as of end-2015 improved to 2.10%, from 2.31% as of end-2014.

Domestic liquidity/M3 growth (as of end-2015): +8.3% to PHP8.340 trillion, slower vs. +11.2% as of end-2014, reflecting the slower growth in loans/credit.

The Philippine Stock Exchange Composite Index (PSEi): -3.9% in 2015, to close at 6,952.08, sharp decline from +22.8% in 2014. It reached a record high of 8,136.97 on Apr. 7, 2015 and a low of 6,603.19 on August 25, 2015.

**Financial and Operating Highlights**

RCBC's Total Assets increased by 12.70% or P58.16 billion to P516.06 billion while Total Capital Funds went up by 9.41% or P4.998 billion to P58.129 billion. Loans and Receivables, net expanded by 14.35% or P37.545 billion from P261.57 billion to P299.12 billion. Net Income reached P5.129 billion while Gross Operating Income reached P22.232 billion. Non-Interest Income showed a decline of 6.29% or P447 million from P7.102 billion to P6.655 billion mainly due to decline in trading gains.. Operating expenses were well-managed at P15.06 billion, 5.80% or P825 million slightly higher from P14.24 billion the previous year. Even with the intense pricing competition and low interest rate environment, Net Interest Income rose by 4.08% or P610 million to P15.577 billion resulting to a NIM of 4.15%, one of the highest in the sector.

| **BALANCE SHEET** | | | |
|---|---|---|---|
| **In Million Pesos** | **2015** | **2014** | **2013** |
| Total Assets | 516,061 | 457,905 | 421,869 |
| Investment Securities | 111,201 | 100,790 | 92,700 |
| Loans and Receivables (Net) | 299,119 | 261,574 | 237,960 |
| Total Deposits | 342,362 | 315,761 | 297,853 |
| Capital Funds | 58,129 | 53,131 | 44,808 |

Cash and other cash items increased by 7.53% or P985 million from P13.085 billion to P14.070 billion. Due from Bangko Sentral ng Pilipinas, representing 9.81% of total resources, increased by 9.80% or P4.518 billion from P46.099 billion to P50.617 billion. Due from other banks increased by 18.68% or P3.101 billion from P16.600 billion to P19.701 billion. With the Bank's adoption of PFRS 9 in 2014, investment securities are now classified into At Fair Value Through Profit or Loss, At Fair Value Through Other Comprehensive Income, and At Amortized Cost amounting to P5.112 billion, P4.208 billion, and P101.881 billion, respectively. Total investment securities reached P111.201 billion and represented 21.55% of total resources.

The Bank sold certain dollar-denominated bonds classified as investment securities at amortized cost with an aggregate carrying amount of Php 35.04 billion. The sale was made in order to fund capital expenditures related to the Bank's purchase of branch licenses this year and to immediately replenish regulatory capital as the purchase will result to a reduction in the Bank's capital position. The disposal resulted in a gain of Php1.48 billion, which is included under Trading and securities gains-net in the statement of profit or loss.

The Bank also sold certain dollar-denominated bonds classified as investment securities at amortized cost with an aggregate carrying amount of Php 1.28 billion due to credit deterioration. This disposal resulted in a loss of Php 234.22 million, which is included under Trading and securities gains-net in the statement of profit or loss.

In both instances, the Bank concluded that the sale is permitted by PFRS 9 and BSP Circular 708 and that there are no changes in its business models for managing financial assets to collect contractual cash flows.

Total net loans and other receivables went up by 14.35% or P37.545 billion from P261.574 billion to P299.119 billion accounting for 57.96% of total resources.

Investment properties (net) decreased by 37.07% or P1.985 billion from P5.355 billion to P3.370 billion mainly due to the reclassification of certain investment properties to assets held for sale classified under other resources. Other resources (net) increased by 42.10% or P2.968 billion from P7.050 billion to P10.018 billion due to reclassification from investment properties, acquisition of additional branch licenses and recognition of deferred tax assets.

Deposit liabilities expanded by 8.42% or P26.601 billion from P315.761 billion to P342.362 billion and accounted for 66.34% of total resources. Demand deposits rose by 37.62% or P12.114 billion from P32.197 billion to P44.311 billion while savings deposits reached P178.197 billion and accounted for 34.53% of total resources. CASA-to-Total deposits ratio stood at 64.99% as of end-2015.

Bills payable reached P49.404 billion and accounted for 9.57% of total resources. Bonds payable, on the other hand reached P39.364 billion and accounted for 7.63% of total resources.

On January 21, 2015, the Bank successfully raised $200 million worth of 5-year senior unsecured fixed-rate notes off its $1.0 billion EMTN Programme. The notes carried a coupon and yield of 4.25% and maturity of January 22, 2020. On February 10, 2015, the Bank issued another $43 million with a coupon and yield of 4.25% under the same EMTN Programme. On September 21, 2015, Rizal Commercial Banking Corporation closed and signed a USD280 million three (3)-year syndicated term loan facility with a diverse group of international banks. On October 21, 2015, the Bank successfully rasied $320 million worth of senior unsecured Reg S bonds due 2021. The notes carried a coupon and yield at 3.45%.

Total liabilities amounted to P457.932 billion and accounted for 88.74% of total resources.

On July 24, 2015 the bank redeemed its USD 100 Million 9.875% Non-Cumulative Step-up Perpetual Securities (“the Hybrid Tier 1 Notes”) as approved by the Board of Directors and by the Bangko Sentral ng Pilipinas last March 30, 2015 and May 27, 2015, respectively. The Hybrid Tier 1 Notes were redeemed for a total price of USD 113.93 million

Capital Paid in Excess of Par grew by 40.17% of ₱6.487 billion from ₱16.148 billion to ₱22.635 billion, which was mainly due to the issuance of capital to Cathay Life Insurance. Net Unrealized Gains/(Losses) on Financial Assets At Fair Value Through Other Comprehensive Income amounted to ₱689 million, down by 17.60% or ₱146 million from ₱835 million due to fair value losses on certain investments.

Retained earnings went up by 18.11% or ₱3.327 billion from ₱18.367 billion to ₱21.694 billion as a result of net income earned during the year which was partially offset by dividends declared and the redemption premium on hybrid perpetual securities charged directly to retained earnings. The Bank's capital, excluding non-controlling interest, reached ₱58.105 billion, 9.41% or ₱4.996 billion higher from ₱53.109 billion in 2014 and accounted for 11.26% of total resources.

**Income Statement**

| **INCOME STATEMENT** | | | |
|---|---|---|---|
| **In Million Pesos** | **2015** | **2014** | **2013** |
| Interest Income | 21,520 | 20,200 | 18,824 |
| Interest Expense | 5,943 | 5,233 | 5,513 |
| Net Interest Income | 15,577 | 14,967 | 13,311 |
| Other Operating Income | 6,655 | 7,102 | 9,810 |
| Impairment Losses | 2,350 | 2,509 | 2,054 |
| Operating Expenses | 15,061 | 14,236 | 14,474 |
| Net Income attributable to Parent Company Shareholders | 5,129 | 4,411 | 5,321 |

Total interest income reached P21.520 billion and accounted for 96.80% of total operating income. Interest income from loans and receivables went up by 9.40% or P1.501 billion from P15.961 billion to P17.462 billion and accounted for 78.54% of total operating income. Other interest income decreased by 16.43% or P35 million from P213 million to P178 million primarily due to lower interest income from SDA. Interest income from investment securities reached P3.880 billion and accounted for 17.45% of total operating income.

Total interest expense went up by 13.57% or P710 million from P5.233 billion to P5.943 billion and accounted for 26.73% of total operating income. Interest expense from deposit liabilities reached P2.992 billion while interest expense from bills payable and other borrowings reached P2.951 billion, representing 13.46% and 13.27% of total operating income, respectively. As a result, net interest income increased by 4.08% or P610 million from P14.967 billion to P15.577 billion and accounted for 70.07% of total operating income.

Impairment losses decreased by 6.34% or P159 million from P2.509 billion to P2.350 billion and represented 10.57% of total operating income.

Other operating income of P6.655 billion accounted for 29.93% of total operating income and is broken down as follows:

- Trading and securities gain-net reached P1.406 billion and accounted for 6.32% of total operating income
- Service fees and commissions reached P2.897 billion and accounted for 13.03% of total operating income
- Foreign exchange gains reached P181 million while Trust fees reached P286 million
- Miscellaneous income increased by 9.21% or P159 million from P1.726 billion to P1.885 billion.

Operating expenses reached P15.061 billion and utilized 67.74% of total operating income.

- Manpower costs reached P4.731 billion and consumed 21.28% of total operating income
- Occupancy and equipment-related costs stood at ₱2.607 billion and consumed 11.73% of total operating income.
- Depreciation and amortization reached ₱1.611 billion.
- Taxes and licenses stood at ₱1.437 billion.
- Miscellaneous expenses settled at ₱4.675 billion from ₱4.604 billion and consumed 21.03% of total operating income.

Tax expense declined by 133.59% or P1.221 billion mainly due to the recognition of P1.138 bilion Deferred Tax Income relating to Net Operating Loss Carry-over (NOLCO), allowance for impairment losses and other temporary differences.

Loss attributable to non-controlling interest remained unchanged at ₱1 million.

The Bank aims to continue growing its client base and achieve 12 million customers in 5 years through expansion in the Bank's distribution and electronic banking channels, brand-building, and introduction of innovative products and services. The Bank will continue to cater to the country's middle class and overseas Filipino workers in the remittance business and give special focus on the growing micro, small, and medium enterprises (MSMEs), and consumer segment. The Bank will also leverage on the entry of Cathay Life Insurance as a strategic investor and tie-ups with various Japanese and other Asian banks to support the business expansion of their SME clients operating here in the country. It will continue to hire more young, dedicated, and competent people and train its existing personnel.

For 2016, there are no known trends, demands, commitments, events or uncertainties that would have a material impact on the Bank's liquidity. The Bank does not anticipate having any cash flow or liquidity problems within the next twelve (12) months. It is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. Further, there are no trade payables that have not been paid within the stated terms.

**Performance Indicators**

| | | | | |
|---|---|---|---|---|
| Return on Average Assets (ROA) | 1.09% | 1.04% | 1.11% | 1.27% |
| Return on Average Equity (ROE) | 9.33% | 9.23% | 8.84% | 10.80% |
| BIS Capital Adequacy Ratio (CAR) | 15.72% | 15.37% | 15.63% | 14.93% |
| Non-Performing Loans (NPL) Ratio | 0. 79% | 0.90% | 0. 26% | 0.24% |
| Non-Performing Assets (NPA) Ratio | 1. 45% | 1.72% | 0. 37% | 0.47% |
| Net Interest Margin (NIM) | 4.15% | 4.30% | 3.62% | 3.71% |
| Cost-to-Income Ratio | 67.74% | 64.51% | 65.75% | 59.70% |
| Loans-to-Deposit Ratio | 86.74% | 82.19% | 87.12% | 82.09% |
| Current Ratio | 0.43 | 0.49 | 0.43 | 0.48 |
| Liquid Assets-to-Total Assets Ratio | 0.17 | 0.21 | 0.18 | 0.21 |
| Debt-to-Equity Ratio | 7.88 | 7.62 | 7.32 | 7.07 |
| | | | | |
| Asset-to- Equity Ratio | 8.88 | 8.62 | 8.32 | 8.07 |
| Asset -to- Liability Ratio | 1.13 | 1.13 | 1.14 | 1.14 |
| Interest Rate Coverage Ratio | 1.81 | 2.02 | 1.89 | 2.16 |
| Earnings per Share (EPS) | | | | |
| Basic | Php 3.07 | Php 3.11 | Php 2.44 | Php 3.17 |
| Diluted | Php 3.07 | Php 3.11 | Php 2.44 | Php 3.17 |

**Wholly-Owned/Virtually Owned Subsidiaries**

| RCBC SAVINGS BANK | Audited | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 1,250,962 | Php 1,040,096 |
| Return on Average Assets (ROA) | 1.48% | 1.42% |
| Return on Average Equity (ROE) | 14.10% | 13.80% |
| BIS Capital Adequacy Ratio (CAR) | 13.55% | 14.73% |
| Non-Performing Loans (NPL) Ratio | 1.94% | 2.57% |
| Non-Performing Assets (NPA) Ratio | 5.23% | 6.35% |
| Earnings per Share (EPS) | Php 40.52 | Php 33.69 |

| RIZAL MICROBANK | Audited | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Loss | Php (64,848) | Php (74,772) |
| Return on Average Assets (ROA) | -7.47% | -9.12% |
| Return on Average Equity (ROE) | -14.11% | -16.47% |
| BIS Capital Adequacy Ratio (CAR) | 90.26% | 56.99% |
| Non-Performing Loans (NPL) Ratio | -0.75% | -0.61% |
| Non-Performing Assets (NPA) Ratio | 0.89% | 1.19% |
| Loss per Share (EPS) | Php (5.76) | Php (8.53) |

| RCBC CAPITAL CORPORATION and Subsidiaries | Audited | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 133,505 | Php 464,604 |
| Return on Average Assets (ROA) | 3.02% | 9.78% |
| Return on Average Equity (ROE) | 3.59% | 11.79% |
| BIS Capital Adequacy Ratio (CAR) | 26.27% | 41.41% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | 0.01% | 0.05% |
| Earnings per Share (EPS) | Php 1.13 | Php 3.93 |

| RCBC FOREX BROKERS CORPORATION | Audited | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 70,914 | Php 76,149 |
| Return on Average Assets (ROA) | 15.36% | 16.15% |
| Return on Average Equity (ROE) | 32.73% | 33.94% |
| Capital to Total Assets | 63.92% | 62.32% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 141.83 | Php 152.30 |

| RCBC INTERNATIONAL FINANCE, LTD. and Subsidiary | Unaudited | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income /(Loss) | Php 3,749 | Php (4,367) |
| Return on Average Assets (ROA) | 2.92% | -3.25% |
| Return on Average Equity (ROE) | 3.02% | -3.35% |
| Capital to Total Assets | 95.02% | 97.24% |
| Non-Performing Loans (NPL) Ratio | - | - |

| | | |
|---|---|---|
| Non-Performing Assets (NPA) Ratio | - | - |
| Loss per Share | Php 1.50 | Php (1.75) |

| **RCBC NORTH AMERICA, INC.** | **Unaudited** | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Loss | Php (3,825) | Php (13,697) |
| Return on Average Assets (ROA) | -76.41% | -29.56% |
| Return on Average Equity (ROE) | -178.16% | -133.52% |
| Capital to Total Assets | 215.19% | -0.75% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Income/(Loss) per Share | Php (87.47) | Php (313.24) |

| **RCBC TELEMONEY EUROPE S.P.A** | **Unaudited** | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 5,276 | Php 15,513 |
| Return on Average Assets (ROA) | 1.94% | 4.84% |
| Return on Average Equity (ROE) | 45.69% | 500.92% |
| Capital to Total Assets | -5.67% | -1.09% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 52.76 | Php 155.13 |

| **RCBC-JPL HOLDING COMPANY, INC. (Formerly JP Laurel Bank, Inc.)** | **Audited** | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income/ (Loss) | Php (5,745) | Php 1,332 |
| Return on Average Assets (ROA) | -2.53% | 0.54% |
| Return on Average Equity (ROE) | 5.03% | -1.19% |
| Capital to Total Assets | -50.14% | -45.73% |
| Non-Performing Loans (NPL) Ratio | - | 42.56% |
| Non-Performing Assets (NPA) Ratio | - | 58.02% |
| Income/ (Loss) per Share (EPS) | Php (0.03) | Php 0.01 |

| **NIYOG PROPERTY HOLDINGS, INC.** | **Audited** | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 88,670 | Php 27,309 |
| Return on Average Assets (ROA) | 10.68% | 3.36% |
| Return on Average Equity (ROE) | 11.43% | 3.45% |
| Capital to Total Assets | 86.06% | 94.63% |
| Non-Performing Loans (NPL) Ratio | - | - |
| Non-Performing Assets (NPA) Ratio | - | - |
| Earnings per Share (EPS) | Php 63.75 | Php 19.63 |

| **RCBC LEASING AND FINANCE CORP. and Subsidiary** | **Audited** | |
|---|---|---|
| **In Php 000s** | **2015** | **2014** |
| Net Income | Php 33,983 | Php 24,456 |
| Return on Average Assets (ROA) | 0.81% | 0.63% |
| Return on Average Equity (ROE) | 5.86% | 4.65% |
| Capital to Total Assets | 20.54% | 14.05% |
| Non-Performing Loans (NPL) Ratio | 15.70% | 19.70% |

| | | |
|---|---|---|
| Non-Performing Assets (NPA) Ratio | 13.94% | 16.77% |
| Earnings per Share (EPS) | Php 0.07 | Php 0.05 |

*Notes to the Computations:*

1. *Consolidated and Parent Company ROA and ROE ratios were taken from the corresponding audited financial statements. ROA ratio of the subsidiaries was determined based on the average of the quarterly ending balances of total assets, audited and/or unaudited. ROE ratio of the subsidiaries was likewise computed based on the average of the quarterly ending balances of total equity, audited and/or unaudited.*

2. *CAR covers combined credit, market and operational risks. Where the BIS CAR was not computed, the simple Capital to Total Assets ratio formula was used.*

3. *NPL ratio is determined by using the following formula: (Total NPLs net of total specific provision for losses) / (Total gross loan portfolio)*

4. *NPA ratio is determined by using the following formula: (Net NPLs + Gross ROPA + Non performing SCR) / Gross Total Assets.*

*For some subsidiaries, the NPL/NPA ratios were not computed since these ratios were not applicable.*

**<u>Key Variable and Other Qualitative and Quantitative Factors</u>**

**Plans for 2016**

Sustaining the core business lines will continue to be the main thrust of the Bank for 2016. SME and consumer loans will remain as the main drivers of loan growth while growth in the corporate loans is expected to be tempered with the change in administration in 2016. Microfinance lending will continue to grow especially in the Mindanao and Visayas regions.

The Bank aims to increase its fee-based income from corporate, consumer and investment banking businesses; wealth management; trust; retail banking; remittance; cash management and bancassurance products; and credit card business. The Bank plans to increase deposit volume by growing its number of customers through various initiatives across different segments. Specifically, the Bank aims to increase customers transacting through electronic channels, aggressively target retail depositors by offering ATM-based products, and offer cash management products and services to business enterprises. Moreover, the BSP granted the Bank 50 licenses to open new branches in previously restricted zones in Metro Manila which the bank expects to fully utilize in 2016.

The Bank intends to capitalize 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. Strong focus will be given to building a strong consumer franchise inclusive of a large consumer credit portfolio by capitalizing on the branch network through a much refined branch referral incentive program.

**Notes to Financial Statements of March 31, 2016**

**Statement of Compliance with Generally Accepted Accounting Principles.** The interim financial statements of the Bank have been prepared in accordance with the Financial Reporting Standards in the Philippines for Banks (FRSPB).

As permitted by PFRS 9 and BSP Circular 708, the Bank sold certain peso and dollar-denominated bonds classified as investment securities at amortized cost with an aggregate carrying amount of Php 24.72 billion. The disposal resulted in a gain of Php 602.3 million, which is included under Trading and securities gains-net in the statement of profit or loss. In addition, the Bank concluded that the sale did not result to changes in its business models for managing financial assets to collect contractual cash flows.

**Accounting Policies and Methods of Computation.** There were no changes in the accounting policies and methods of computation followed in the interim financial statements as compared with the most recent annual financial statements.

**Seasonality or Cyclicality of Interim Operations.** Seasonal or cyclical events and/or conditions do not materially affect the year-round operations of the Bank.

**Changes in Estimates of Amounts Reported.** There were no changes in estimates of amounts reported in prior interim periods of the current financial year or in estimates of amounts reported in prior financial years.

**Issuances, Repurchases and Repayments of Debt and Equity Securities.** There were no issuances, repurchases, and repayments of debts and equity securities in the interim financial statements as compared with the most recent annual financial statements.

**Dividends Paid for Ordinary or Other Shares.** In its meeting held on April 25, 2016, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.066 per share or a total of approximately P21 thousand payable to holders of Preferred Class shares. The Board of Directors also approved the declaration and payment of cash dividends amounting to P0.72 per share or a total of approximately P1.007 billion payable to holders of Common Class and a total of approximately P223 thousand payable to holders of Preferred Class shares, both subject to the final approval of the Bangko Sentral ng Pilipinas.

In its meeting held on January 25, 2016, the Board of Directors approved the declaration and payment of cash dividends amounting to P0. 6495 per share, or a total of approximately P20 thousand payable to holders of Preferred Class shares subject to the approval of Bangko Sentral ng Pilipinas.

In its meeting held on November 4, 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.05928 per share, or a total of approximately P18 thousand payable to holders subject to the approval of Bangko Sentral ng Pilipinas.

In its meeting held on July 27, 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.0583 per share, or a total of approximately P18 thousand payable to holders of Preferred Class shares, which was approved by the Bangko Sentral ng Pilipinas on September 11, 2015 and paid on September 24, 2015.

In its meeting held on April 27, 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.05667 per share, or a total of approximately P18 thousand payable to holders of Preferred Class shares, which was approved by the Bangko Sentral ng Pilipinas on September 11, 2015 and paid on September 22, 2015.

In its meeting held on March 30, 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.60 per share, or a total of approximately P839.945 million payable to holders of Common Class shares, and a total of approximately P186 thousand payable to holders of Preferred Class shares, which was approved by the Bangko Sentral on May 13, 2015 and paid on June 8, 2015.

In its meeting held on January 26, 2015, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.05630 per share, or a total of approximately P19 thousand payable to holders of Preferred Class shares, which was approved by the Bangko Sentral on March 20, 2015 and paid on March 27, 2015.

The details of the 2016 cash dividend approvals and distributions for the first quarter of 2016 are as follows (amounts in Thousand Php except per share figures):

| Date Declared | Dividend | | Date Approved by the BSP | Date Paid / Payable | Nature of Securities |
|---|---|---|---|---|---|
| | Per Share | Total Amount | | | |
| 27-Oct-14 | P 0.05496 | P 19 | 19-Dec-14 | 28-Jan-15 | Convertible Preferred Stock |
| 27-Oct-14 | * | P 218,608 | 20-Mar-15 | 27-Apr-15 | Hybrid Tier 1 |
| 26-Jan-15 | P 0.05630 | P 18 | 20-Mar-15 | 27-Mar-15 | Convertible Preferred Stock |
| 30-Mar-15 | P 0.60000 | P 839,945 | 13-May-15 | 8-Jun-15 | Common Stock |
| 30-Mar-15 | P 0.60000 | P 186 | 13-May-15 | 8-Jun-15 | Preferred stock |
| 27-Apr-15 | P 0.05667 | P 19 | 11-Sep-15 | 22-Sep-15 | Convertible Preferred Stock |
| 27-Jul-15 | P 0.05830 | P 18 | 11-Sep-15 | 22-Sep-15 | Convertible Preferred Stock |
| 4-Nov-15 | P 0.05928 | P 18 | N/A | 22-Dec-15 | Convertible Preferred Stock |
| 25-Jan-16 | P 0.64950 | P 20 | N/A | 23-Mar-16 | Convertible Preferred Stock |
| 25-Apr-16 | P 0.06600 | P 21 | Pending | Pending | Convertible Preferred Stock |
| 25-Apr-16 | P 0.72000 | P 1,007,934 | Pending | Pending | Common Stock |
| 25-Apr-16 | P 0.72000 | P 223 | Pending | Pending | Preferred stock |

**Segment Information.** The following table presents revenues and expenses of the Parent Company that are directly attributable to primary business segments for the period ended March 31, 2016 (in millions).

| RESULTS OF OPERATIONS | | | | | |
|---|---|---|---|---|---|
| | Retail Banking Group | Corporate Banking Group | Treasury / Trust | Others | Total |
| Net interest income | 2,559 | 1,884 | 121 | (1,647) | 2,917 |
| Non-interest income | 658 | 384 | 897 | 74 | 2,013 |
| Total revenue | 3,217 | 2,267 | 1,018 | (1,573) | 4,930 |
| Non-interest expense | 1,803 | 487 | 189 | 585 | 3,064 |
| Income (loss) before Income tax | 1,414 | 1,780 | 829 | (2,158) | 1,866 |
| Income tax provision | - | - | - | 64 | 64 |
| Net income (loss) | 1,414 | 1,780 | 830 | (2,223) | 1,801 |

**Material Events Subsequent to the End of the Interim Period Not Reflected in the Financial Statements.** There were no material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.

**Changes in Composition of the Issuer During the Interim Period.** RCBC TeleMoney Europe S.p.a ceased its operations in March 2016. It is a wholly-owned subsidiary of the bank and was established in 1995 in Rome, Italy to engage in the remittance business.

**Changes in Contingent Liabilities or Contingent Assets.** There were no material changes in contingent liabilities or contingent assets since the last annual balance sheet date.

**Material Contingencies and Any Other Events or Transactions.** During the interim period, there were no changes in material contingencies and any other events or transactions.

### Performance Indicators

The following basic ratios measure the financial performance of the Bank and its consolidated subsidiaries:

| RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES | | | | |
|---|---|---|---|---|
| | Consolidated | | Parent | |
| | Unaudited | Audited | Unaudited | Audited |
| | 31-Mar-16 | 31-Dec-15 | 31-Mar-16 | 31-Dec-15 |
| Return on Average Assets (ROA)* [1/] | 1.43% | 1.09% | 1.49% | 1.11% |
| Return on Average Equity (ROE) *[2/] | 12.24% | 9.33% | 11.85% | 8.84% |
| BIS Capital Adequacy Ratio | 16.26% | 15.72% | 16.24% | 15.63% |
| Non-Performing Loans (NPL) Ratio [3/] | 0.82% | 0. 79% | 0.24% | 0. 26% |
| Non-Performing Assets (NPA) Ratio [4/] | 1.57% | 1. 45% | 0.39% | 0. 37% |
| Net Interest Margin (NIM)* | 4.27% | 4.15% | 3.71% | 3.62% |
| Cost-to-Income Ratio | 62.79% | 67.74% | 61.02% | 65.75% |
| Loans-to-Deposit Ratio | 95.05% | 86.74% | 94.10% | 87.12% |
| Current Ratio | 0.45 | 0.43 | 0.48 | 0.43 |
| Liquid Assets -to-Total Assets Ratio | 0.19 | 0.17 | 0.23 | 0.18 |
| Debt-to-Equity Ratio | 7.15 | 7.88 | 6.63 | 7.32 |
| Asset-to- Equity Ratio | 8.15 | 8.88 | 7.63 | 8.32 |
| Asset -to- Liability Ratio | 1.14 | 1.13 | 1.15 | 1.14 |
| Interest Rate Coverage Ratio | 2.12 | 1.81 | 2.15 | 1.89 |
| Earnings per share (EPS)* [5/] | | | | |
| Basic and Diluted | PHP 5.16 | PHP 3.76 | PHP 4.37 | PHP 3.13 |

**March 31,2016 ratios/amounts were annualized*

[1/] *Average assets for the consolidated and parent ratios were computed based on the 4-month average of end of month balances of total assets. Unaudited net income for the 3-month period ended March 31, 2016 in the amount of P1.801 billion and P1.526 billion represented the consolidated and parent, respectively.*

[2/] *Average equity for the consolidated and parent ratios were, likewise, computed based on the 4-month average of end of month balances. Unaudited net income for the 3-month period ended March 31, 2016 in the amount of P1.801 billion and P1.526 billion represented the consolidated and parent, respectively.*

[3/] *Non-performing loans (NPLs) were net of total specific allowance for probable losses per BSP Circular No. 772 of 2012.*

[4/] *NPAs were net of total specific allowance for probable losses.*

[5/] *Total weighted average number of issued and outstanding common shares (diluted) as of March 31, 2016 – 1,399,980,113 shares; as of December 31, 2015 – 1,362,537,128 shares.*

*Performance Indicators for Wholly-Owned/Majority Owned Subsidiaries*

| RCBC SAVINGS BANK | | Unaudited | Audited |
|---|---|---|---|
| In Php 000s | | March 31, 2016 | December 31, 2015 |
| Net Income | PHP | 200,022 | Php 1,250,962 |
| Return on Average Assets (ROA)* | | 0.87% | 1.48% |
| Return on Average Equity (ROE)* | | 8.12% | 14.10% |
| BIS Capital Adequacy Ratio (CAR) | | 13.34% | 13.99% |
| Non-Performing Loans (NPL) Ratio | | 2.07% | 1.94% |
| Non-Performing Assets (NPA) Ratio | | 5.89% | 5.23% |
| Earnings per Share (EPS)* | PHP | 25.99 | Php 40.52 |

| RIZAL MICROBANK | | Unaudited | Audited |
|---|---|---|---|
| In Php 000s | | March 31, 2016 | December 31, 2015 |
| Net Loss | PHP | (7,283) | Php (64,848) |
| Return on Average Assets (ROA)* | | -2.83% | -7.47% |
| Return on Average Equity (ROE)* | | -4.74% | -14.11% |
| BIS Capital Adequacy Ratio (CAR) | | 82.22% | 90.26% |
| Non-Performing Loans (NPL) Ratio | | 2.49% | -0.75% |
| Non-Performing Assets (NPA) Ratio | | 2.27% | 0.89% |
| Loss per Share (EPS)* | PHP | (3.33) | Php (5.76) |

| RCBC CAPITAL CORPORATION and Subsidiaries | | Unaudited | Audited |
|---|---|---|---|
| In Php 000s | | March 31, 2016 | December 31, 2015 |
| Net Income | PHP | 170,182 | Php 133,505 |
| Return on Average Assets (ROA)* | | 17.39% | 3.02% |
| Return on Average Equity (ROE)* | | 19.33% | 3.59% |
| BIS Capital Adequacy Ratio (CAR) | | 27.73% | 26.27% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | 0.04% | 0.01% |
| Earnings per Share (EPS)* | PHP | 5.78 | Php 1.13 |

| RCBC FOREX BROKERS CORPORATION | | Unaudited | Audited |
|---|---|---|---|
| In Php 000s | | March 31, 2016 | December 31, 2015 |
| Net Income | PHP | 12,672 | Php 70,914 |
| Return on Average Assets (ROA)* | | 19.82% | 15.36% |
| Return on Average Equity (ROE)* | | 23.05% | 32.73% |
| Capital to Total Assets Ratio | | 76.65% | 63.92% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | - | - |
| Earnings per Share (EPS)* | PHP | 101.65 | Php 141.83 |

*March 31,2016 ratios/amounts were annualized*

| RCBC INTERNATIONAL FINANCE, LTD. and Subsidiary | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Income | PHP | 2,503 | Php 3,749 |
| Return on Average Assets (ROA)* | | 7.22% | 2.92% |
| Return on Average Equity (ROE)* | | 7.35% | 3.02% |
| Capital to Total Assets Ratio | | 98.35% | 95.02% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | - | - |
| Earnings per Share (EPS)* | PHP | 4.02 | Php 1.50 |

| RCBC NORTH AMERICA, INC. | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Loss | PHP | (759) | Php (3,825) |
| Return on Average Assets (ROA)* | | -119.48% | -76.41% |
| Return on Average Equity (ROE)* | | -133.76% | -178.16% |
| Capital to Total Assets Ratio | | 90.77% | 215.19% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | - | - |
| Loss per Share (EPS)* | PHP | (69.66) | Php (87.47) |

| RCBC TELEMONEY EUROPE S.P.A | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Income (Loss) | PHP | (8,154) | Php 5,276 |
| Return on Average Assets (ROA)* | | -18.74% | 1.94% |
| Return on Average Equity (ROE)* | | 161.58% | 45.69% |
| Capital to Total Assets Ratio | | -20.27% | -5.67% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | - | - |
| Earnings (Loss) per Share (EPS)* | PHP | (327.07) | Php 52.76 |

| RCBC-JPL HOLDING COMPANY, INC. (Formerly JP Laurel Bank, Inc.) | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Income (Loss) | PHP | (221) | Php (5,745) |
| Return on Average Assets (ROA)* | | -0.40% | -2.53% |
| Return on Average Equity (ROE)* | | 0.76% | 5.03% |
| Capital to Total Assets Ratio | | -53.13% | -50.14% |
| Non-Performing Loans (NPL) Ratio | | 0.00% | - |
| Non-Performing Assets (NPA) Ratio | | 0.00% | - |
| Loss per Share (EPS)* | PHP | (0.00) | Php (0.03) |

**March 31, 2016 ratios/amounts were annualized*

| NIYOG PROPERTY HOLDINGS, INC. | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Income | PHP | 1,759 | Php 88,670 |
| Return on Average Assets (ROA)* | | 0.87% | 10.68% |
| Return on Average Equity (ROE)* | | 0.90% | 11.43% |
| Capital to Total Assets Ratio | | 95.69% | 86.06% |
| Non-Performing Loans (NPL) Ratio | | - | - |
| Non-Performing Assets (NPA) Ratio | | - | - |
| Earnings per Share (EPS)* | PHP | 5.07 | Php 63.75 |

| RCBC LEASING AND FINANCE CORP. and Subsidiary | Unaudited | | Audited |
|---|---|---|---|
| In Php 000s | March 31, 2016 | | December 31, 2015 |
| Net Income | PHP | 16,638 | Php 33,983 |
| Return on Average Assets (ROA)* | | 1.21% | 0.81% |
| Return on Average Equity (ROE)* | | 11.64% | 5.86% |
| Capital to Total Assets Ratio | | 9.28% | 20.54% |
| Non-Performing Loans (NPL) Ratio | | 14.36% | 15.70% |
| Non-Performing Assets (NPA) Ratio | | 12.65% | 13.94% |
| Earnings per Share (EPS)* | PHP | 0.15 | Php 0.07 |

**March 31, 2016 ratios/amounts were annualized*

**(C) Financial Statements**

The consolidated financial statements have been prepared in conformity with Financial Reporting Standards in the Philippines for Banks (FRSPB) and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

RIZAL COMMERCIAL BANKING CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions)

| | | (Unaudited) March 31 2016 | | (Audited) December 31 2015 |
|---|---|---|---|---|
| ASSETS | | | | |
| Cash and Other Cash Items | P | 13,176 | P | 14,070 |
| Due From Bangko Sentral ng Pilipinas | | 45,054 | | 50,617 |
| Due From Other Banks | | 26,568 | | 19,701 |
| Investment Securities | | | | |
| Financial Assets at Fair Value Through Profit or Loss | | 5,596 | | 5,112 |
| Financial Assets at Fair Value Through Other Comprehensive Income | | 4,189 | | 4,208 |
| Investment Securities At Amortized Cost | | 69,350 | | 101,881 |

| | | | | |
|---|---|---|---|---|
| Loans and Receivables, net | | 301,750 | | 299,119 |
| Investments in Associates, net | | 394 | | 363 |
| Bank Premises, Furniture, Fixtures & Equipment, net | | 8,571 | | 7,602 |
| Investment Properties, net | | 3,385 | | 3,370 |
| Other Resources, net | | 10,186 | | 10,018 |
| TOTAL RESOURCES | P | 488,220 | P | 516,061 |
| | | | | |
| LIABILITIES AND CAPITAL FUNDS | | | | |
| Deposit Liabilities | | | | |
| Demand Deposits | P | 41,206 | | 44,311 |
| Savings Deposits | | 163,476 | | 178,197 |
| Time Deposits | | 112,535 | | 119,854 |
| Total Deposit Liabilities | | 317,216 | | 342,362 |
| Bills Payable | | 44,830 | | 49,404 |
| Bonds Payable | | 38,531 | | 39,364 |
| Accrued Taxes, Interest and Other Expenses Payable | | 4,435 | | 4,453 |
| Other Liabilities | | 13,338 | | 12,413 |
| Subordinated Debt | | 9,940 | | 9,936 |
| TOTAL LIABILITIES | | 428,290 | | 457,932 |
| | | | | |
| Capital Funds Attributable to Parent Company Shareholders: | | | | |
| Preferred Stock | | 3 | | 3 |
| Common Stock | | 13,999 | | 13,999 |
| Hybrid Perpetual Securities | | - | | - |
| Capital Paid in Excess of Par | | 22,635 | | 22,635 |
| Net Unrealized Gains/(Losses) on Financial Assets At Fair Value Through Other Comprehensive Income | | 663 | | 688 |
| Remeasurement of Net Defined Benefits | | (1,262) | | (1,268) |
| Cumulative Translation Adjustment | | 79 | | 62 |
| Reserve for Trust Business | | 388 | | 388 |
| Other Reserves | | (97) | | (97) |
| Surplus | | 23,496 | | 21,694 |
| | | 59,904 | | 58,105 |
| Non-controlling Interest | | 25 | | 24 |
| TOTAL CAPITAL FUNDS | | 59,930 | | 58,129 |
| TOTAL LIABILITIES & CAPITAL | P | 488,220 | P | 516,061 |

*1/ The consolidated financial statements have been prepared in conformity with the Philippine Financial Reporting Standards (PFRS) and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.*

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
(Amounts in Millions except for earnings per share)

| | | (Unaudited) Jan. 1 to Mar. 31 2016 | | (Unaudited) Jan. 1 to Mar. 31 2015 |
|---|---|---|---|---|
| INTEREST INCOME ON | | | | |
| Loans and receivables | P | 4,808 | P | 4,135 |
| Investment securities | | 1,047 | | 841 |
| Others | | 49 | | 41 |
| | | 5,904 | | 5,017 |
| INTEREST EXPENSE ON | | | | |
| Deposit liabilities | | 721 | | 735 |
| Bills payable and other borrowings | | 972 | | 669 |
| | | 1,693 | | 1,404 |
| NET INTEREST INCOME | | 4,211 | | 3,613 |
| IMPAIRMENT LOSSES | | 464 | | 1,003 |
| NET INTEREST INCOME AFTER IMPAIRMENT LOSSES | | 3,748 | | 2,610 |
| OTHER OPERATING INCOME | | | | |
| Trading and securities gain-net | | 831 | | 1,723 |
| Service fees & commissions | | 654 | | 717 |
| Trust fees | | 70 | | 69 |
| Foreign exchange gains (losses)-net | | 122 | | (4) |
| Miscellaneous | | 432 | | 444 |
| | | 2,109 | | 2,949 |
| OTHER OPERATING EXPENSES | | | | |
| Employee benefits | | 1,333 | | 1,183 |
| Occupancy & equipment-related | | 714 | | 645 |
| Taxes & Licenses | | 406 | | 402 |
| Depreciation and amortization | | 411 | | 378 |
| Miscellaneous | | 1,105 | | 1,146 |
| 62.79% | | 3,969 | | 3,753 |
| INCOME BEFORE TAX | | 1,888 | | 1,805 |
| TAX EXPENSE | | 86 | | 203 |
| NET INCOME | | 1,802 | | 1,602 |
| NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST | | 0 | | (0) |
| NET INCOME ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS | P | 1,801 | P | 1,602 |
| Earnings per Share (Annualized) | | | | |

| | | |
|---|---|---|
| Basic | P 5.16 | P 4.75 |
| Diluted | P 5.16 | P 4.75 |

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (Amounts in Millions) | (Unaudited) Jan. 1 to Mar. 31 2016 (03.31.16 vs. 12.31.15) | (Unaudited) Jan. 1 to Mar. 31 2015 (03.31.15 vs. 12.31.14) |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before tax | P 1,888 | P 1,805 |
| Adjustments for: | | |
| Interest income | (5,904) | (5,017) |
| Interest expense | 1,693 | 1,404 |
| Impairment losses | 464 | 1,003 |
| Depreciation and amortization | 481 | 442 |
| Dividend income | (9) | (16) |
| Equity in net earnings of associates | (32) | (20) |
| Operating income before working capital changes | (1,420) | (399) |
| Decrease (Increase) in financial assets at fair value through profit and loss | (484) | 3,889 |
| Decrease (Increase) in loans and receivables | (3,304) | (9,917) |
| Decrease (Increase) in investment property | (15) | 89 |
| Decrease (Increase) in other resources | (160) | (868) |
| Increase (Decrease) in deposit liabilities | (25,146) | 100 |
| Increase (Decrease) in accrued taxes, interest and other expenses | 23 | (193) |
| Increase (Decrease) in other liabilities | 98 | (508) |
| Cash generated from (used in) operations | (30,407) | (7,806) |
| Interest received | 6,113 | 5,350 |
| Interest paid | (1,845) | (1,734) |
| Cash paid for taxes | 26 | (53) |
| Net Cash From (Used in) Operating Activities | (26,113) | (4,243) |

| | | |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (increase) in Financial Assets at FVOCI | (6) | 725 |
| Decrease (increase) in investment securities at amortized cost | 32,532 | 15,385 |
| Acquisitions of bank premises, furniture, fixtures and equipment (net) | (1,379) | (333) |
| Cash dividends received | 146 | 16 |
| Decrease (increase) in investments in subsidiaries and associates | (127) | (19) |
| Acquisitions of software | (52) | (57) |
| Net Cash From (Used in) Investing Activities | 31,114 | 15,717 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| ProceedS from (payments of) bills payable | (4,575) | (11,459) |
| Dividends paid | (0) | (0) |
| Net proceeds from (Redemption of) bonds payable | - | (367) |
| Redemption of subordinated debt | - | - |
| Net proceeds from issuance of common shares | 0 | - |
| Net Cash From (Used in) Financing Activities | (4,575) | (11,826) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 426 | (352) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | |
| Cash and other cash items | 14,070 | 13,085 |
| Due from Bangko Sentral ng Pilipinas | 50,617 | 46,099 |
| Due from other banks | 19,685 | 16,600 |
| | 84,373 | 75,784 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | |
| Cash and other cash items | 13,176 | 9,358 |
| Due from Bangko Sentral ng Pilipinas | 45,054 | 43,151 |

| | | |
|---|---|---|
| Due from other banks | 26,568 | 22,923 |
| | P 84,798 | P 75,432 |

** Restated to reflect the balances under PFRS 9 as required by PAS 34 Interim Financial Reporting.*

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS**
(Amounts in Millions)

| | (Unaudited) Jan. 1 to Mar. 31 2016 | (Unaudited) Jan. 1 to Mar. 31 2015 |
|---|---|---|
| ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS | | |
| PREFERRED STOCK | | |
| Balance, beginning | P 3 | 3 |
| Issuance (Conversion) of preferred stock | - | - |
| Balance,end | 3 | 3 |
| COMMON STOCK | | |
| Balance, beginning | 13,999 | 12,757 |
| Conversion of preferred stock to common stock | | |
| Issuance of common stock | - | - |
| Balance,end | 13,999 | 12,757 |
| HYBRID PERPETUAL SECURITIES | | |
| Balance, beginning | - | 4,883 |
| Redemption | - | - |
| Balance, end | - | 4,883 |
| CAPITAL PAID IN EXCESS OF PAR | | |
| Balance, beginning | 22,635 | 16,147 |
| Conversion of preferred stock to common stock | - | - |
| Excess of consideration given over cost of common shares issued | 0 | - |
| Balance,end | 22,635 | 16,147 |

| | | |
|---|---|---|
| REVALUATION RESERVE ON FINANCIAL ASSETS AT FVOCI | | |
| Balance, beginning as previously reported | 688 | 835 |
| Fair value gains (losses) during the period | (26) | 279 |
| Balance, end | 663 | 1,114 |
| | | |
| ACCUMULATED TRANSLATION ADJUSTMENTS | | |
| Balance, beginning | 62 | 71 |
| Translation adjustment during the period | 18 | 7 |
| Balance, end | 79 | 78 |
| | | |
| OTHER COMPREHENSIVE INCOME - RETIREMENT PLAN | | |
| Balance, beginning | (1,268) | (224) |
| Remeasurement of the defined benefits during the period | 6 | (3) |
| Balance, end | (1,262) | (227) |
| | | |
| RESERVE FOR TRUST BUSINESS | | |
| Balance, beginning | 388 | 366 |
| Transfer from surplus free | - | - |
| Balance, end | 388 | 366 |
| | | |
| OTHER RESERVES | (97) | (97) |
| | | |
| SURPLUS FREE | | |
| Beginning balance, as previously reported | 21,694 | 18,367 |
| Effect of adoption of PFRS 9 | - | - |
| Beginning balance, as restated | 21,694 | 18,367 |
| Net income | 1,801 | 1,602 |
| Cash dividends on common shares | - | - |
| Cash dividends on preferred shares | (0) | (0) |
| Dividends on Hybrid Capital Securities | - | - |
| Redemption of Hybrid Capital Securities | - | |
| Transfer of fair value reserves on FVOCI | - | - |
| Transfer to reserves for trust business | - | - |
| Balance, end | 23,496 | 19,969 |
| | | |
| ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS | 59,904 | 54,995 |

| | | | |
|---|---|---|---|
| NON-CONTROLLING INTEREST | | | |
| Balance, beginning | | 24 | 22 |
| Prior period adjustments | | - | - |
| Fair value gains (losses) on available-for-sale securities, net of tax | | 1 | 1 |
| Net Income (loss) for the year | | 0 | (0) |
| Balance, end | | 25 | 23 |
| TOTAL CAPITAL FUNDS | P | 59,930 | 55,018 |

** Restated to reflect the balances under PFRS 9 as required by PAS 34 Interim Financial Reporting.*

***If material;***

***(i) Commitments and Contingent Liabilities***

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

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

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI), which purchased the Iligan 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 the Liquidator and the secured creditors, including the Bank 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 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$80,000,000.00, as and by way of lost opportunity to make profits and (b) P1,403,000,000.00, representing the value of the Lost Land Claim. A petition to set aside the Partial Award was filed with the Singapore High Court, which granted the same on July 31, 2014. The Singapore High Court likewise subsequently heard and granted on November 17, 1014 the secured creditors' application, among others, for the issuance of consequential orders relating to the discharge of the injunctions issued in 2008, such that applying the principle of legal set-off, the secured creditors directed the release of GSPI and GIHI's installment payment by the Facility Agent. Accordingly, the Bank and RCBC Capital received their respective share in the funds previously held in escrow. Moreover, the secured creditors may now compel GSPI and GIHI to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon GSPI and GIHI's failure to do so.

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 million 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 OMNA, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Bank, 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 12 August 2015, the Singapore Court of Appeals heard the oral arguments of the parties on the following issues: (a) the remand of the case back 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, applying the provisions of the International Arbitration Act (IAA) of Singapore, which governed the proceedings between the parties, the issue of GSPI and GIHI'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 earlier award relating thereto has been set aside by the courts. 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 since this issue was not actually fully litigated before the Arbitral Tribunal, 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 Bank's exposure is approximately P204,499,482.67 in terms of estimated property taxes and transfer costs due on the Iligan Plant assets, while it has a receivable from Global Steel of P485.5 million, taking into consideration the P49.3 million 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 (a) 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 GSPI and GIHI are deemed paid, following the denial with finality of its Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on 16 March 2016, and (b) should Iligan City agree to enter into another tax agreement with NSC on its outstanding post-closing tax obligation.

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, 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 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 January 27, 2016, the jury rendered a verdict solely in favor of VMS, which was, however, not immediately entered into the records of the case pending the resolution of the Bank/Bankard's motion for nonsuit. On 10 March 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, citing the grounds of (a) prescription, (b) lack of capacity/standing to sue of VII/VMS, and (c) VII/VMS's own evidence indicating that their monetary claim arose from transactions involving websites officially registered under another merchant. On 11 April 2016, the Bank/Bankard timely filed their motions for JNOV and new trial.

On May 12, 2016, Judge Raphael heard the Bank/Bankard's motions for JNOV and new trial, and rendered a decision on May 13, 2016, partially granting the Bank/Bankard's motion for JNOV by deleting the punitive damages awarded by the jury in favor of VMS, as there is no evidence that a corporate officer or director of the Bank/Bankard authorized or ratified the fraudulent acts perpetrated by Janet Conway. Judge Raphael, however, affirmed the principal award in favor of VMS in the total amount of US$2,016,717.30, inclusive of interest. The Bank's exposure, however, may be varied depending on the outcome of the hearing on VMS's motion for cost of proof sanctions, which the Bank/Bankard timely opposed. The Bank/Bankard is currently contemplating the filing a Notice of Appeal with the California Court of Appeals.

In December 2011, RCBC Securities initiated the filing of a criminal case for falsification against a former agent who carried out certain questionable transactions with her own personal clients. Since then, RCBC Securities has filed additional criminal and civil cases, including charges of BP 22, against the aforesaid former agent. These cases are now pending with the Regional Trial Court and Metropolitan Trial Court of Makati City. There is also an investigation before the Capital Markets Integrity Corporation ("CMIC") of the Philippine Stock Exchange initiated in May 2012 requesting for an investigation on the operations of RSEC in relation to the accounts handled by the former agent and requesting the CMIC to take appropriate action. The CMIC, in its letter dated 4 December 2014, dismissed the complaint on the ground of prescription and res judicata. The complainants' motion for reconsideration of the CMIC decision remains pending to date. There is also a complaint filed in December 2013 before the Securities and Exchange Commission ("SEC") for alleged violations by RSEC of the Securities Regulation Code for improperly accounting for shares handled by the former agent. The complaints sought for penalties against RSEC, including the suspension or revocation of RSEC's license. The complaint is still pending before the SEC.

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 million 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 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% final withholding tax it withheld on the PEACe Bonds on 18 October 2011. On 16 March 2015, RCBC 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. RCBC 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. RCBC 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 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.

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 RCBC and member-banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Preliminary Injunction (P.I.), 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, 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 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 10 June 2015, RTC Makati 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.

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.

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.

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to 4 accounts in RCBC, which were eventually transferred to various accounts outside of RCBC. Regulatory penalties and various cases may arise from this. The Bank does not expect these penalties to be of a material nature that would affect its ability to perform its existing obligations or unduly hamper its operations.

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 following is a summary of contingencies and commitments arising from off-balance sheet items at their equivalent peso contractual amounts as of March 31, 2016 and December 31, 2015:

| In Million Php | Consolidated | | Parent | |
|---|---|---|---|---|
| | Unaudited | Audited | Unaudited | Audited |
| | 31-Mar-2016 | 31-Dec-2014 | 31-Mar-2016 | 31-Dec-2015 |
| Derivative liabilities | 36,002 | 22,154 | 36,002 | 22,154 |
| Derivative assets | 41,043 | 23,432 | 41,043 | 23,432 |
| Trust department accounts | 88,166 | 82,552 | 66,376 | 66,156 |
| Outstanding guarantees issued | 28,634 | 25,328 | 28,634 | 25,328 |
| Spot foreign exchange bought | 6,058 | 6,055 | 6,058 | 6,055 |
| Spot foreign exchange sold | 6,058 | 6,514 | 6,058 | 6,062 |
| Unused commercial letters of credit | 9,413 | 12,095 | 9,358 | 12,038 |
| Inward bills for collection | 1,813 | 724 | 1,813 | 724 |
| Late deposits/payments received | 622 | 630 | 523 | 581 |
| Outward bills for collection | 73 | 147 | 73 | 146 |

***(ii) events that will trigger direct or contingent financial obligation that is material to the company; including any default or acceleration of an obligation***

To the knowledge and/or information of the Bank, there are no events that will trigger a direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

***(iii) all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period***

There were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

***(iv) description of any material commitments for capital expenditures, general purpose of such commitments, expected sources of funds for such expenditures***

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

***(v) any known trends, events or uncertainties (material impact on sales)***

There are also no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.

## (D) Material Changes from Period to Period Financial Statements (Vertical and Horizontal Analyses)

**<u>31 March 2016 vs 31 December 2015</u>**

Consolidated Total Resources of the Bank for the period ended March 31, 2016 was recorded at ₱488.220 billion, 5.39% down or ₱27.841 billion lower than ₱516.061 billion as of end-December 31, 2015.

Cash and other Cash Items decreased by 6.35% or P894 million from P14.070 billion to P13.176 billion. Due from Bangko Sentral recorded at P45.054 billion, 10.99% lower from P50.617 billion and accounted for 9.23% of the Total Resources. Due from other Banks increased by 34.86% or P6.867 billion, from P19.701 billion to P26.568 billion.

Loans and Receivables, Net was recorded at P301.750 billion and accounted for 61.81% of the Banks's Total Resources.

Total Investment Securities accounted for 16.21% of Total Resources and totaled P79.135 billion; there was a 28.84% decrease or P32.066 billion from P111.201 billion mainly due to the sale of certain securities.

As permitted by PFRS 9 and BSP Circular 708, the Bank sold certain peso and dollar-denominated bonds classified as investment securities at amortized cost with an aggregate carrying amount of Php 24.72 billion. The disposal resulted in a gain of Php 602.3 million, which is included under Trading and securities gains-net in the statement of profit or loss. In addition, the Bank concluded that the sale did not result to changes in its business models for managing financial assets to collect contractual cash flows.

Bank Premises, Furniture, Fixtures and Equipment, net grew by 12.74% or P969 million from P7.602 billion to P8.571 billion attributable to the opening of new bank branches and acquisition of equipment for lease.

Total Deposit Liabilities, which accounted for 64.97% of Total Resources, settled at P317.216 billion. Savings Deposits stood at P163.476 billion and accounted for 33.48% of total resources. Demand Deposits accounted for 8.44% of total resources and stood at P41.206 billion while higher-costing time deposits reached P112.535 billion and accounted for 23.05% of total resources. CASA-to-deposit ratio stood at 64.52% as of end-March 2016 compared to 64.99% as of end-December 2015.

Bills Payable decreased by 9.26% or P4.574 billion from P49.404 billion to P44.830 billion due to lower foreign currency dominated borrowings for this period. Other Liabilities, on the other hand, went up by 7.45% or P 925 million from P12.413 billion to P13.338 billion mainly due to increase in derivative liabilities and payment orders payable.

Total Liabilities decreased by 6.47% or P29.642 billion from P457.932 billion to P428.290 billion mainly due to decrease in Deposit Liabilities and Bills Payable, and accounted for 87.72% of Total Resources.

Cumulative Translation Adjustment increased by 29.05% or P17 million from P62 million to P79 million mainly due to the changes in the peso exchange rates used in the conversion of foreign subsidiaries.

Retained Earnings of P23.496 billion represented 39.22% of Total Capital Funds. The Bank's Capital, excluding Non-controlling Interest grew to P59.904 billion and accounted for 12.27% of Total Resources.

Finally, 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.

**31 March 2016 vs. 31 March 2015**

RCBC posted a Net Income of P1.801 billion for the first quarter of 2016, P199.16 million or 12.43% higher than the P1.602 billion income for the same period last year.

Net Interest Income, representing 66.64% of Total Operating Income, improved by 16.56% or up by P598.35 million from P3.613 billion to P4.211 billion. Interest Income from Loans and Receivables grew by 16.27% or P672.67 million from P4.135 billion to P4.808 billion and accounted for 76.08% of the Total Operating Income. Interest Income from Investment Securities which accounted for 16.56% of Total Operating Income, increased by 24.48% or P205.82 million from P841 million to P1.047 billion.

Total Interest Expense, accounted for 26.79% of Total Operating Income, was made up of Interest on Deposit Liabilities and Interest on Bills Payable and Other Borrowings which are 11.41% and 15.38% of the Total Operating Income, respectively. Total Interest Expense increased by 20.58% or P288.97 million from P1.404 billion to P1.693 billion, with Interest Expense in Bills Payable and Other Borrowings by 45.31% or P303 million from P669 million to P972 million mainly due to the increase in the average volume of Bills Payable and issuances of bonds.

Provisioning for Impairment Losses this period, which accounted for 7.34% of the Total Operating Income was at ₱464 million, 53.77% or P539.32 million lower from P1.003 billion that was set for the same period last year.

Other Income settled at ₱2.109 billion and accounted for 33.36% of Total Operating Income. Items under Operating Income posted the following results:

- Service fees and commissions stood at ₱654 million and accounted for 10.34% of total operating income.
- Trading and securities gain-net recorded at ₱831 million and is 13.16% of Total Operating Income
- Trust fees stood at ₱70 million.
- Foreign exchange gains improved by P125.24 million from a loss of ₱4 million last year, now at ₱122 million gain.
- Miscellaneous income was recorded at ₱432 million.

Representing 62.79% of Total Income, Other Operating Expenses increased by 5.73% or ₱215.05 million from ₱3.753 billion to ₱3.969 billion due to the following:

- Employee benefits went up by 12.64% or P145.59 million from P1.183 billion to P1.333 billion mainly due to the additional headcount as a result of branch expansion.
- Occupancy & equipment related expenses increased by 10.66% or ₱68.74 million from ₱645 million to ₱714 million and consumed 11.29% of total operating income. The increase is attributable to opening of new bank branches and annual escalation on leases.
- Taxes and licenses settled at P406 million.
- Depreciation and amortization increased by 8.79% or ₱33.17 million from ₱378 million to ₱411 million as a result of setting up of additional banking channels and renovation of existing branches
- Miscellaneous expenses settled at ₱1.105 billion and used up 17.49% of total operating income.

Tax expense was lower by 57.68% or ₱117.10 million from ₱203 million to ₱86 million as a result of impact of application of Deferred Tax Accounting (DTA).

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

**(E) External Audit Fees**

External Audit Fees and Services. The Audit Committee is empowered to appoint the external auditor of the Bank and pre-approve all auditing and non-audit services. It recommends to the

Board the selection of external auditor considering independence and effectiveness and recommends the fees to be paid.

For the audit of the Bank's annual financial statements and services provided in connection with statutory and regulatory filings or engagements, the aggregate amount to be billed/billed, excluding out-of pocket expenses, by its independent accountant amounts/amounted to P10.20 million and P9.67 million for 2015 and 2014, respectively. Additionally, approximately P3.80 million was paid for other services rendered by the independent accountant in 2015.

The audit fees already incorporate also fees for tax accounting, compliance, advice, planning and any other form of tax services rendered by the external auditor. There is no separate breakdown of tax fees since the tax compliance procedures are normal/recurring procedures conducted by the external auditor during their year-end audit and is not engaged separately by the Bank from the annual financial statements audit.

As for non-audit services and other fees, these pertain to the quarterly financial statements review and fees paid for due diligence engagements relating to the Bank's proposed offerings.

Changes in and Disagreements With Accountants on Accounting and Financial Disclosure. In connection with the audits of the Bank's financial statements for the two (2) most recent years ended December 31, 2015 and 2014, there were no disagreements with Punongbayan and Araullo on any matter of accounting principles or practices, financial statement disclosures, audit scope or procedures.

The Members of the Audit Committee are as follows: Armando M. Medina as Chairman and Medel T. Nera, Francisco C. Eizmendi, Jr. as Members.

The Audit Committee approved the policies and procedures for the above services

**(F) Brief Description of the General Nature and Scope of Business of RCBC and its Subsidiaries**

Rizal Commercial Banking Corporation (RCBC or the Bank) is a universal bank in the Philippines that provides a wide range of banking and financial products and services. It has total resources of P516.1 billion and total networth of P58.1billion, including minority interest, as of end-December 2015. The Bank ranked seventh (7th) in terms of assets among private local banks. In terms of business centers, the Bank, excluding government-owned and foreign banks, ranked sixth (6th) with a consolidated network of 456 business centers inclusive of 36 extension offices and supplemented by 1,342 ATMs as of December 31, 2015.

The Bank offers commercial, corporate and consumer lending products, cash management products, treasury products, and remittance services. RCBC also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Bank and its subsidiaries (hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (auto, mortgage and housing loans, and credit cards), remittance, leasing, foreign exchange and stock brokering.

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1963, the Bank received approval from the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank and began operations under its present name, Rizal Commercial Banking Corporation. RCBC acquired its universal banking license in 1989 and has been listed on the Philippine Stock Exchange Inc. (PSE) since 1986.

RCBC's common shares are 41.68% directly and indirectly owned by Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines.

PMMIC is the holding company of the flagship institutions comprising the Yuchengco Group of Companies (YGC) and other investments. Other significant investors include the World Bank's International Finance Corporation and Cathay Life Insurance Co. Ltd., a wholly-owned subsidiary of Cathay Financial which is the largest publicly listed financial holding company in Taiwan.

The registered address of RCBC is Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

Through its universal banking license, the Bank is allowed to perform a number of expanded commercial and investment functions and to invest in the equity of a variety of allied and non-allied financial and non-financial undertakings.

The Bank's subsidiaries are as follows:

***RCBC Capital Corporation (RCBC Capital),*** a 99.96% owned subsidiary, was established in 1974 as the Bank's investment banking subsidiary. 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. ***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. ***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.

***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 end-December 2015, RSB had 150 business centers and 436 ATMs nationwide.

***RCBC Forex Brokers Corporation (RCBC Forex)***, a wholly-owned subsidiary of the Bank, was incorporated in 1998. RCBC Forex is primarily engaged in dealing and brokering currencies in foreign exchange contracts with local and international clients.

***RCBC International Finance Limited (RCBC IFL)***, a wholly-owned subsidiary of the Bank, was established in July 31, 1962 and is the Bank's overseas branch in Hong Kong. ***RCBC Investment Ltd. (RCBC IL)*** is a 100% owned subsidiary of RCBC IFL established on August 1, 1980 to engage in the business of remittance, money exchange, retail lending and investment. RCBC IL was placed under dormant status in May 2009 and RCBC IFL took over its businesses using the Money Service Operator's (MSO) and Money Lender's (ML) Licenses.

***RCBC North America, Inc. (formerly RCBC California International, Inc.)***, a wholly-owned subsidiary of the Bank (83.97% owned by RCBC; 16.03% indirectly owned through RCBC IFL), was a foreign exchange remittance office in California. The company ceased its operations in March 2014.

***RCBC TeleMoney Europe S.p.a.***, a wholly-owned subsidiary of the Bank, was established in 1995 in Rome, Italy to engage in the remittance business. The company ceased its operations in March 2016.

***Merchants Savings and Loan Association, Inc. (now operating under the name & style - Rizal Microbank, a thrift bank)***, a 98.03% owned subsidiary, was acquired on May 15, 2008 to engage in microfinancing and development of small businesses. Rizal Microbank has 18 branches and 5 microbanking offices with operations in Southern Luzon and Mindanao. Rizal Microbank moved its Head Office (HO) and branch from Makati City to Davao City in April 2011.

***RCBC Leasing and Finance Corporation (formely First Malayan Leasing and Finance Corporation) (RCBC LFC),*** *a* 97.80% owned subsidiary of the Bank, acquired in March 2012***,*** is a pioneer in the leasing and financing industry in the Philippines as the company started its operations in 1957. RCBC LFC is a non-bank financial institution with a quasi-banking license granted by the Bangko Sentral ng Pilipinas. It serves the requirements of corporate, commercial and consumer markets through its innovative loans, leases and investment products. ***RCBC Rental Corporation*** is a wholly-owned subsidiary of RCBC LFC engaged in renting and leasing business machines, transport vehicles and heavy equipment under an operating lease arrangement.

***Niyog Property Holdings, Inc. (NPHI)***, a wholly-owned subsidiary of the Bank, was incorporated on September 13, 2005 to purchase, subscribe for or otherwise dispose of real and personal property of every kind and description but not as an investment company. It is 48.11% owned by the Bank and 51.89% indirectly owned through RSB.

***RCBC-JPL Holding Company, Inc. (formerly Pres. Jose P. Laurel Rural Bank, Inc.) (RCBC-JPL)***, 99.39% owned, was renamed with a corresponding change in primary business to handle the disposition of the remaining assets of the former JPL Rural Bank. In April 1, 2012, RMB acquired selected assets and liabilities of JPL Rural Bank.

**(G) Directors and Executive Officers**

The directors of the Company are elected at the annual stockholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified. Incumbent directors are:

| Name | Age | Position | Inclusive Dates | Citizenship |
|---|---|---|---|---|
| Sec. Alfonso T. Yuchengco | 93 | Honorary Chairman | May 27, 2002 to present | Filipino |
| | | Director | June 30, 2003 to present | |
| Ms. Helen Y. Dee | 72 | Director | March 28, 2005 to present | Filipino |
| | | Chairperson of the Board | June 27, 2005 to present | Filipino |
| | | Interim President and Chief Executive Officer | March 23, 2016 to present | |
| Mr. Cesar E. A. Virata | 85 | Director | 1995 to present | Filipino |
| | | Corporate Vice-Chairman | June 22, 2000 to present | |
| | | Acting Chief Executive Officer | January 28, 2002 to June 29, 2003 | |
| | | Chief Executive Officer | June 30, 2003 to June 28, 2004 | |
| Atty. Teodoro D. Regala | 82 | Director | June 28, 1999 to present | Filipino |
| Atty. Wilfrido E. Sanchez | 79 | Director | March 27, 2006 to present | Filipino |
| Atty. Maria Celia H. Fernandez-Estavillo | 44 | Corporate Secretary | February 28, 2005 to present | Filipino |
| | | Director | June 26, 2005 to present | |
| | | Executive Vice President, Head of Legal and Regulatory Affairs Group | August 1, 2006 to present | |
| Mr. Medel T. Nera | 60 | Director | July 25, 2011 to present | Filipino |
| Mr. Tze Ching Chan | 59 | Director | November 28, 2011 to present | Chinese |
| Mr. Richard G.A. Westlake | 64 | Director | October 1, 2014 to present | New Zealand |
| Mr. John Law | 65 | Director | April 27, 2015 to present | Taiwanese |

| | | | | |
|---|---|---|---|---|
| Mr. Yuh-Shing Peng | 44 | Director | April 27, 2015 to present | French & Taiwanese (dual citizen) |
| Mr. Armando M. Medina | 66 | Independent Director | Feb. 26, 2003 to present | Filipino |
| Mr. Francisco C. Eizmendi, Jr. | 80 | Independent Director | May 29, 2006 to present | Filipino |
| Mr. Antonino L. Alindogan, Jr. | 77 | Independent Director | September 24, 2007 to present | Filipino |

The names, ages and positions of all **incumbent executive officers** are as follows:

**<u>Senior Executive Vice Presidents</u>**

**Redentor C. Bancod**, 52, Filipino, Senior Executive Vice-President, is the Head of the IT Shared Services Group and Operations Group. 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**, 53, Filipino, 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 in May 2007, 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.

**Michelangelo R. Aguilar**, 59, Filipino, 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.

**Atty. Maria Celia H. Fernandez-Estavillo**, 44, Filipino, Executive Vice-President, is the Bank's Director, Corporate Secretary and Head of the Legal and Regulatory Affairs Group. She holds positions as Director and/or Corporate Secretary in Luisita Industrial Park Corp., Philippine Integrated Advertising Agency, Inc., RCBC Capital Corporation, and Niyog Property Holdings, Inc. She is also a member of the Board of Trustees of Yuchengco Center. She graduated from the University of the Philippines with degrees in Bachelor of Science in Business Economics (Summa Cum Laude) and Bachelor of Laws (Cum Laude). She completed her Master of Laws (LL.M) in Corporate Law (Cum Laude) at the New York University School of Law. She received the highest score in the 1997 Philippine Bar examinations.

**Michael O. de Jesus**, 56, Filipino, 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**, 56, Filipino, 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,** 56, Filipino, Executive Vice-President, is the Head of the Internal Audit Group. 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.

**Simon Javier A. Calasanz,** 36, 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.

**Rafael Aloysius M. Dayrit**, 59, Filipino, First Senior Vice-President, is the Head of Credit Management Group. He was the Credit Risk Division Head from May 2006 to January 2013, Head of Small and Medium Enterprises Division from January 2002 to February 2006 and the Head of Corporate Division III from September 2000 to December 2001. He obtained his Bachelor of Science degree in Agri. Business from the University of the Philippines, his Masters in Business Administration from the same university and his Masters in Agricultural Economics from the University of California, Davis.

**Lourdes Bernadette M. Ferrer**, 57, Filipino, 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**, 47, Filipino, 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. Florentino 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**, 47, Filipino, 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**, 48, Filipino, First Senior Vice-President, is the Head of the Bank's Digital Banking Group. Prior to joining the Bank, she was a Director, Corporate Vice President and Head Asia Head of Digital of Manulife Financial where she has also served in various other capacities since 2010. She also served as Chief Operating Officer of Philippine AXA Life and Group Head for Electronic Banking Services, Global Operations of Philippine National Bank, Division Head for Transactional Banking of United Coconut Planters Bank, among others. Ms. Lopez graduated from the University of the Philippines with a degree of Bachelor of Computer Science in 1987 and obtained her Masters in Technology Management, Business and Industry from the same University in 2001.

**Regino V. Magno**, 58, Filipino, First Senior Vice-President, is the Bank's Chief Risk Officer and the Head of Corporate Risk Management Services (CRISMS). 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**, 56, Filipino, 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**, 56, Japanese, 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**, 54, 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**, 55, Filipino, 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.

**Lizette Margaret Mary J. Racela**, 50, Filipino, First Senior Vice-President, is the Group Head of Retail Banking. She joined RCBC in 2008 as Small and Medium Enterprise Head for Provincial Business before she was seconded to RCBC Savings Bank in December 2010 to January 2016. Previously, she worked for Philippine National Bank as First Vice-President/Group Head of Provincial Commercial Lending Group (February 2005 to February 2008) and Vice-President/Division Head of Provincial Business Division-Luzon (November 2002 to February 2005). She also worked for several local banks assuming the following positions: Assistant Vice-President /Department Head for Branch Credit Administrative (May 1999 to August 2002) and Senior Manager/ Department Head for Personal Loans (November 1996 to April 1999) in UCPB, Senior Manager/ Branch Head in East West Banking Corp. (February 1996 to October 1996), Manager/ Branch Head (May 1991 to January 1996) and Senior Assistant Manager/ Private Banking Officer Savings (March 1989 to 1991) in UCPB Savings Bank and Marketing Assistant in Urban Development Bank (February 1988 to June 1988). Ms. Racela obtained her Bachelor of Science Degree in Business Administration from the University of the Philippines. She also took up Bachelor of Law in the same university and has completed the academic requirements up to 3rd year.

**Rowena F. Subido**, 49, Filipino, 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**, 45, 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 institutions in the following capacities: Financial

Planning Officer at Banco de Oro from July 2005 to July 2006, Corporate Planning Officer at RCBC from 1999 to 2005, Risk Management and Planning Officer of Malayan Bank from 1998 to 1999, Research Officer of Unicapital, Inc. from 1995 to 1996 and Credit/Financial Analyst of Multinational Investment Corporation from 1991 to 1995. 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.

**Enrique C. Buenaflor,** 45, Filipino, Senior Vice President, is the Head of Business Development Division in Global Transaction Banking Group. 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.

**Karen K. Canlas,** 41, Senior Vice-President, is the Division 1 Head of Wealth Management Segment 2. She was the OIC of Division 1 from February to August 2011 and the Senior Relationship Manager of the same division from February 2010 to February 2011. Prior to joining RCBC, she was the Corporate Sales Unit Head/Vice President of Export Bank from August 2005 to January 2010, Relationship Manager/Senior Manager of Equitable PCI Bank from February 2003 to August 2005, Branch Head (Main Office) of Bank of Commerce from May 2002 to January 2003, Manager (Relationship Banking Group) of Export and Industry Bank from September 2001 to May 2002 and Branch Head of Global Business Bank from September 2000 to September 2001. She also held various positions at Urban Bank for almost 6 years in which her last appointment was as Manager of Alabang Regional Office, Business Development Group. Ms. Canlas started her career as Technical Staff at the National Economic Development Authority in March 1994. She obtained her Bachelor of Arts major in Economics minor in Political Science degree from De La Salle University in 1994.

**Brigitte B. Capina**, 55, Filipino, 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**, 55, Filipino, 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**, 55, Filipino, 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**, 47, Filipino, Senior Vice-President, is the Head of Conglomerate 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 Mizuho-ICS (MICS) Mini-MBA program at Hitotsubashi University Graduate School of International Corporate Strategy.

**Sabino Maximiano O. Eco**, 47, Filipino, Senior Vice-President, is the Deputy Group Head of Operations and the concurrent head of Branch Banking Services Division. Prior to this appointment, he held various positions in the Bank such as Retail and Channels Division Head (November 2008 to January 2014), BC Operations Division Head (May 2004 to October 2008), Cash Management Operations Department Head (January 2001 to April 2004), CASA Recon & Verification Head (August 1999 to January 2001), Branch Operations Head (January 1996 to August 1999), Branch Accountant (November 1994 to January 1996), Branch Officer At Large (July to November 1994), BOTP Trainee (April to July 1994), CASA Bookkeeper (February 1992 to April 1994) and GL/SL Bookkeeper (April 1991 to February 1992). Mr. Eco graduated from Far Eastern University with a Bachelor of Science degree in Commerce majoring in Accounting.

**Edwin R. Ermita**, 53, Filipino, 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**, 45, 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 afterwhich 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.

**Vivien I. Lugo-Macasaet**, 56, Filipino, 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.

**Florentino M. Madonza**, 45, Filipino, Senior Vice-President, is the Group Head of Controllership effective October 14, 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. Manago**, 51, Filipino, Senior Vice-President, is the 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.

**Carlos Cesar B. Mercado**, 50, Filipino, Senior Vice-President, is the Head of Balance Sheet Management Segment. He joined the Bank in June 2009 and held the position of Trading Segment Head. Prior to joining RCBC, he was the Managing Director/Senior Vice-President of Basic Capital Investments Corp. in 2001, a Treasurer/First Vice-President of Treasury of United Overseas Bank Philippines in 2000 and a Division Head of Domestic Funds and Liquidity Management of Equitable-PCI Bank in 1994. Mr. Mercado earned his Japan-focused Executive Masters in Business Administration with highest distinction from the University of Hawaii and the Japan-America Institute of Management Science in December 1993, under the Fujitsu Asia-Pacific Scholarship. He obtained his Bachelor of Arts degree majoring in Electrical Engineering from the University of the Philippines.

**Gerardo G. Miral,** 50, 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.

**Evelyn Nolasco**, 55, Filipino, 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.

**Koji Onozawa**, 51, Japanese, Senior Vice-President, is the Japanese Liaison Officer of the Japanese Business Relationship Office. He was formerly the Senior Manager of the International Credit Administration Department of The Sanwa Bank, Ltd., Tokyo in 1999. He also served in other capacities such as Manager of the Planning and Administration Department in 1997 and Manager of Tameike Branch of the Business Promotion Department in 1993. He earned his Bachelor of Law degree from Meiji University, Tokyo.

**Matias L. Paloso**, 58, Filipino, Senior Vice-President, is the Head of RBG Products, Support & Systems Segment. Mr. Paloso was seconded to RSB as Deputy Group Head of Retail Banking from April 2012 to July 2014. Prior to this, he was 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**, 54, Filipino, 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.

**Alberto N. Pedrosa**, 46, Filipino, 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.

**Arsilito A. Pejo**, 54, Filipino, Senior Vice-President, is the Regional Sales Director of Eastern Visayas since January 1, 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.

**Nancy J. Quiogue**, 47, Filipino, Senior Vice-President, is the Regional Service Head of North and Central Metro Manila. Prior to assuming her current position, she was the Regional Service Head for Metro Manila from April 2010 to December 2014 and 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**, 50, Filipino, 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**, 49, Filipino, Senior Vice-President, is the National Sales Director of Retail Banking Group. 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**, 44, Filipino, Senior Vice-President, is the Head of Trading 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.

**Joseph Colin B. Rodriguez,** 49, Filipino, is the President and Chief Executive Officer of RCBC Forex Brokers Corporation. Prior to his appointment, he was Senior Vice President and Treasurer of RCBC Savings Bank. 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.

**Raoul V. Santos**, 49, Filipino, 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,** 50, 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.

**Michael Ashwin S. Singh,** 43, Senior Vice President, is the Segment Head of Institutional Cross-Selling. Prior to assuming this position, he was the Cross Selling Initiatives Head from June 1, 2015 to August 31, 2015. He was previously connected with Alpha North America in Chicago, Illinois as Chief Operating Officer from 2010 to 2014 and also worked with HSBC from 2004 to 2009 where he assumed the following positions: Vice President for Cards Marketing and Product Strategy (San Francisco, CA), Vice President for Subprime New Product Development (Charlotte, NC) and Assistant Vice President for Corporate Strategy/Business Development (Chicago, Illinois). Mr. Singh was also engaged in business from 1995 to 2003, co-founding 2 local companies namely Emyth, Inc., where he was the Co-Founder/CEO of Nacho King and Pinoyauctions.com, where he was the Co-Founder/Business Development Director. He obtained his BA/BS degree in Political Science and Business Administration at De Paul University in Chicago, Illinois in 1994 and was conferred the degree of Masters in Business Administration at Northwestern University on recommendation of J.L. Kellogg School of Management in 2005.

**Johan C. So**, 45, Filipino, 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 Masters degree in Business Administration from the Ateneo Graduate School of Business in 1999.

**Ma. Angela V. Tinio**, 53, Filipino, 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 II 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.

**Teodoro Eric D. Valena, Jr.,** 57, Filipino, Senior Vice-President, is the Head of Retail E-Channels Division. Previously, he was the 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.

Most of the Directors and executive officers mentioned above have held their positions for at least five (5) years.

**(H) Market Price and Dividends**

*(1) Market Price of Bank's Common Equity*

The common shares of the Bank are listed in the Philippine Stock Exchange. As of April 13, 2016 the market price of RCBC's common shares closed at 31.95 per share. The trading prices of said shares for the different quarters of the years 2015, 2014 and 2013 are as follows:

| | | Q1 | | Q2 | | Q3 | | Q4 | |
|---|---|---|---|---|---|---|---|---|---|
| | | Last Practicable Trading Date | | Last Practicable Trading Date | | Last Practicable Trading Date | | Last Practicable Trading Date | |
| 2016 | High | 34.30 | 2.23.16 | | | | | | |
| | Low | 29.10 | 3.22.16 | | | | | | |
| 2015 | High | 48.50 | 01.19.15 | 46.90 | 04.23.15 | 40.00 | 08.04.15 | 33.00 | 11.20.15 |
| | Low | 45.15 | 03.31.15 | 40.10 | 06.30.15 | 30.05 | 09.30.15 | 29.25 | 10.16.15 |
| 2014 | High | 50.00 | 03.12.14 | 57.70 | 05.19.14 | 56.00 | 07.30.14 | 54.60 | 10.07.14 |
| | Low | 42.25 | 01.15.14 | 46.70 | 04.04.14 | 51.80 | 08.18.14 | 46.00 | 12.15.14 |
| 2013 | High | 70.00 | 03.27.13 | 74.00 | 05.15.13 | 59.10 | 07.02.13 | 47.00 | 10.31.13 |
| | Low | 58.00 | 01.07.13 | 52.00 | 06.25.13 | 41.00 | 08.28.13 | 41.50 | 12.16.13 |

Source: Philippine Stock Exchange

*(2) Number of Stockholders as of April 30, 2016 — 787 stockholders (common)*
*— 79 stockholders (preferred)*

*(3) Recent sales of unregistered or exempt securities including recent issuance of securities constituting an exempt transaction*

No recent sales of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction to be reported.

*(4) Top 20 Stockholders of RCBC as of April 30, 2016*

***<u>Common stockholders</u>***

| stockholder name | shares | percentage of ownership |
|---|---|---|
| PCD NOMINEE CORP.(NON-FILIPINO) | 487,132,466 | 34.7974% |
| PAN MALAYAN MANAGEMENT | 473,963,632 | 33.8568% |
| PCD NOMINEE CORPORATION (FILIPINO) | 402,303,139 | 28.7378% |
| SYBASE EQUITY INVESTMENTS CORPORATION | 23,528,800 | 1.6807% |
| A. T. YUCHENGCO, INC. | 3,243,871 | 0.2317% |
| ABOITIZ & COMPANY, INC. | 3,103,530 | 0.2217% |
| HYDEE MANAGEMENT & RESOURCE CORPORATION | 2,105,849 | 0.1504% |
| LON, FRANCISCO GENARO OZAMIZ | 600,000 | 0.0429% |
| ROSARIO, RODOLFO P. DEL | 574,724 | 0.0411% |
| NAVARRO, RIZALINO S. | 260,866 | 0.0186% |
| CONCEPCION, CARMENCITA DE LAS ALAS | 224,490 | 0.0160% |

| | | |
|---|---|---|
| VERANO, MARIA LUISA L. | 207,069 | 0.0148% |
| ALAS, CARLOS DE LAS | 114,298 | 0.0082% |
| ALAS, CORNELIO DE LAS | 114,195 | 0.0082% |
| CHAN, FREDERICK | 107,959 | 0.0077% |
| YANG JIN LIANG | 100,000 | 0.0071% |
| RUFINO, JOSIE PADILLA | 92,865 | 0.0066% |
| LOMBOS, MANUEL C. &/OR MEYRICK J. | 68,574 | 0.0049% |
| ERESE, HENRY | 61,969 | 0.0044% |
| LEGASPI, GRELI S. | 57,290 | 0.0041% |

***Preferred stockholders***

| stockholder name | shares | percentage of ownership |
|---|---|---|
| ROSARIO, RODOLFO P. DEL | 81,521 | 26.285% |
| GO, HOMER | 46,355 | 14.946% |
| CONCEPCION, CARMENCITA | 31,842 | 10.267% |
| CAMPOS LANUZA & CO. INC. | 16,863 | 5.437% |
| OPTIMUM SECURITIES CORP. | 16,666 | 5.374% |
| CHAN, FREDERICK | 16,158 | 5.210% |
| BDO SECURITIES CORP. | 9,304 | 3.000% |
| ERESE, HENRY | 8,790 | 2.834% |
| NGO, LORETA | 8,600 | 2.773% |
| MANDARIN SECURITIES CORPORATION | 7,583 | 2.445% |
| TAN, LUCIANO H. | 7,309 | 2.357% |
| ABACUS SECURITIES CORP. | 6,021 | 1.941% |
| HWANG, HANS YAP | 5,558 | 1.792% |
| ANG, TONY ANG &/OR ROSEMARIE | 5,372 | 1.732% |
| SIA, JOHNSON CHUA | 5,000 | 1.612% |
| ACERO, NICASIO MARIN JR., &/OR ARNOLFO O. | 3,371 | 1.087% |
| CO, JUSTINA DY | 3,258 | 1.050% |
| CHENG, SUSAN | 2,665 | 0.859% |
| GLOBALINKS SEC. & STOCKS | 2,454 | 0.791% |
| BEDAN CORPORATION | 2,100 | 0.677% |

**Security Ownership of Foreigners (as of April 30, 2016)**

| Title of Class | Shares | % of Total |
|---|---|---|
| Common | 487,346,911 | 34.81 |
| Preferred | 416 | 0.00 |

***(4) Cash Dividends***

| Date Declared | Dividend | | Date Approved | Date Paid / Payable | Nature of Securities |
|---|---|---|---|---|---|
| | Per Share | Total | | | |

| | | Amount Php (in Thousand Php) | | | |
|---|---|---|---|---|---|
| January 30, 2012 | P 0.0649 | P 26 | February 24, 2012 | March 27, 2012 | Preferred stock |
| March 26, 2012 | P 0.9000 | P 1,026,771 | April 19, 2012 | June 4, 2012 | Common stock |
| March 26, 2012 | P 0.9000 | P 308 | April 19, 2012 | June 4, 2012 | Preferred stock |
| May 28, 2012 | P 0.0632 | P 22 | June 26, 2012 | July 3, 2012 | Preferred stock |
| July 30, 2012 | P 0.0624 | P21 | September 6, 2012 | September 28, 2012 | Preferred stock |
| November 26, 2012 | P0.0593 | P20 | December 18, 2012 | January 2, 2013 | Preferred stock |
| November 26, 2012 | * | P203,524 | March 4, 2013 | April 27, 2013 | Hybrid Tier 1 |
| November 26, 2012 | * | P212,559 | September 6, 2013 | October 25, 2013 | Hybrid Tier 1 |
| January 28, 2013 | P0.0578 | P20 | March 4, 2013 | March 26, 2013 | Preferred stock |
| March 25, 2013 | P1.00 | P 1,275,659 | April 29, 2013 | May 27, 2013 | Common stock |
| March 25, 2013 | P1.00 | P 342 | April 29, 2013 | May 27, 2013 | Preferred stock |
| April 29, 2013 | P 0.05774 | P 20 | June 10, 2013 | June 27, 2013 | Preferred stock |
| July 29, 2013 | P 0.05745 | P 20 | September 6, 2013 | September 26, 2013 | Preferred stock |
| October 29, 2013 | P 0.05686 | P 19 | January 13, 2014 | January 15, 2014 | Preferred stock |
| October 29, 2013 | * | P 224,014 | February 25, 2014 | April 27, 2014 | Hybrid Tier 1 |
| October 29, 2013 | * | P 215,000 | September 15, 2014 | October 27, 2014 | Hybrid Tier 1 |
| January 27, 2014 | P 0.05615 | P 19 | February 25, 2014 | March 27, 2014 | Preferred Stock |
| March 31, 2014 | P 1.00 | 1,275,659 | May 23, 2014 | June 16, 2014 | Common Stock |
| March 31, 2014 | P 1.00 | P342 | May 23, 2014 | June 16, 2014 | Preferred Stock |
| April 28, 2014 | P 0.05700 | P19 | July 25, 2014 | July 30, 2014 | Preferred Stock |
| July 28, 2014 | P 0.05364 | P19 | September 15, 2014 | October 10, 2014 | Preferred Stock |
| October 27, 2014 | P 0.05640 | P19 | December 19, 2014 | January 28, 2015 | Preferred Stock |
| October 27, 2014 | * | P218,608 | March 20, 2015 | April 27, 2015 | Hybrid Tier 1 |
| October 27, 2014 | * | P221,570 | Pending | October 27, 2015 | Hybrid Tier 1 |
| January 26, 2015 | P0.05630 | P18 | March 20, 2015 | March 27, 2015 | Preferred Stock |
| March 30, 2015 | P0.60 | P840,144 | May 13, 2015 | June 10, 2015 | Common Stock |
| March 30, 2015 | P0.60 | P203 | May 13, 2015 | June 10, 2015 | Preferred Stock |
| April 27, 2015 | P0.056670 | P19 | September 11, 2015 | September 22, 2015 | Preferred Stock |
| July 27, 2015 | P0.05830 | P 18 | September 11, 2015 | September 22, 2015 | Preferred Stock |
| November 4, 2015 | P 0.05928 | P 18 | N/A | December 22, 2015 | Preferred Stock |
| January 25, 2016 | P 0.64950 | P 20 | N/A | March 23, 2016 | Preferred Stock |
| April 25, 2016 | P 0.06600 | P 21 | Pending | Pending | Preferred Stock |
| April 25, 2016 | P 0.72000 | P 1,007,934 | Pending | Pending | Common Stock |
| April 25, 2016 | P 0.72000 | P 223 | Pending | Pending | Preferred stock |

Dividends are declared and paid out of the surplus profits of the Bank as often and at such times as the Board of Directors may determine after making provisions for the necessary reserves in accordance with law and the regulations of the Bangko Sentral ng Pilipinas.

## (I) Compliance with leading practices on Corporate Governance

RCBC is committed in maintaining a high standard of corporate governance by adhering to the core principles of **transparency**, **accountability** and **fairness**.

The Board-approved Corporate Governance Manual embodies and translates the foregoing core principles into well-defined policies and rules. The Corporate Governance Manual is reviewed annually for the purpose of continually aligning the Bank's policies and rules with pertinent regulations and issuances of the BSP and SEC. The Bank's governance structure and processes are benchmarked against local and international leading practices. Thus, the best practices set by the (i) Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance and the (ii) Maharlika Board of the PSE are incorporated in the Bank's Corporate Governance Manual. The Bank's efforts at the continuous enhancement of Corporate Governance within the organization ensures that the interests of stockholders and other stakeholders are well-regarded, the directors, officers, and associates/employees are cognizant of their responsibilities, and the affairs of the Bank are conducted in a safe and sound manner.

The Bank's Corporate Governance Manual fully complies with the SEC's Revised Code of Corporate Governance, as amended. It also conforms to the guidelines and respective best practices under the PSE Corporate Governance Guidelines Disclosure Template and the ASEAN Corporate Governance Scorecard that has promoted greater transparency through more disclosures. This, in turn, enhanced the confidence of the clients/investors that the Bank truly commits to the highest standards of good corporate governance. The Bank shall continue to strengthen its corporate governance policies and procedures in accordance with the BSP and SEC guidelines.

*The Board Of Directors*

The Board of Directors (the "Board") is at the core of the Bank's corporate governance framework. It is primarily responsible for the governance of the Bank, and provides an independent check on Management.

In accordance with the Bank's By-Laws and Corporate Governance Manual, the current Board is comprised of 15 members elected by the stockholders. All of the 15 directors are known for their integrity, experience, education, training and competence. The Bank has 13 non-executive directors, 3 of whom are independent. There are 2 executive directors who are currently officers of the Bank.

All nominations for election of directors by stockholders are required to be submitted in writing to the President and the Corporate Secretary at least 30 working days before the regular or special stockholders' meeting. The Corporate Governance Committee reviews and evaluates the qualifications of a person nominated to the Board. The Committee considers as guidelines the nominee's educational background, professional experience, nature and business of the corporations of which he is a director, age, number of directorships/active memberships and officerships in other corporations/organizations, and possible conflict of interest, to determining his/her suitability to be nominated to the Board. The Committee likewise ensures that each nominee possesses all of the minimum qualifications and none of the disqualifications as prescribed under existing law and regulation. Under the Bank's By-Laws, a person is disqualified to be nominated and subsequently elected as a member of the Bank's Board if said person is engaged in any business that competes with or is antagonistic to the Bank.

The Corporate Governance Committee also reviews the number of directorships of a nominee for the Board. The optimum number of directorships shall be related to the capacity of the director to perform his duties diligently in general. Following the IFC's recommendation, memberships in other boards are limited to 6 unless special circumstances justify a greater number of directorships.

The Board is composed of both executive and non-executive directors, with a sufficient number of qualified non-executive members elected to promote the independence of the board from the views of senior management. Of the 15-member board, 13 are male and 2 are female, representing 87% and 13%, respectively, of the board membership.

In addition, the Board ensures that the independent functions of internal audit, the compliance office, and the risk management group are utilized to lend comfort to stakeholders, including the regulators, of the Bank's commitment to the principles of good corporate governance.

*Independent Directors*

The Board has a sufficient number of independent directors that gives the assurance of impartial views and perspectives. Currently, the Bank has 3 independent directors. All 3 of them are active in various committees of the Bank, and participate extensively in Board discussions.

On an annual basis, the Corporate Governance Committee reviews and evaluates the qualifications of a person nominated to the Board as an independent director to determine whether he meets all of the qualifications and possesses none of the disqualifications of an independent director under relevant laws and regulations. The attributes of an independent director include independence from management or from any business or relationship which could, or could reasonably be perceived to materially interfere with the exercise of independent judgment, and the lack of a relationship to the corporation, its related companies or substantial shareholder as a regular director or officer or relative of the same, as an executive or professional adviser within the last 5 years, or business relations other than arms' length, immaterial or insignificant transactions.

*Rotation and Re-election of Directors*

The directors are elected in the annual stockholders' meeting and hold office for one (1) year and until their successors are elected and qualified.

Independent directors serve as such for 5 consecutive years in accordance with the SEC regulation on Term Limits for Independent Directors effective from January 2, 2012. After the completion of the 5-year service period, an Independent Director is ineligible for election as such in the bank unless he has undergone a "cooling off" period of 2 years, provided that during such period, the Independent Director concerned has not engaged in any activity that under existing rules disqualifies a person from being elected as such in the bank. An independent director re-elected as such in the bank after the "cooling off" period can serve for another 5 consecutive years. Thereafter, the independent director is perpetually barred from being elected as such in the Bank.

Pursuant to SEC Memorandum Circular No. 9, series of 2011 and SEC Advisory dated March 15, 2015, independent directors elected in 2012 may be re-elected as such until 2017, when the 2-year cooling-off period shall commence. However, in a subsequent SEC Advisory dated 31 March 2015, the SEC has advised that if there are no suitable replacements, said independent directors may be re-elected in 2017 until 2021, at which time, they may no longer be qualified as independent directors for the same companies. Said re-election in 2017 until 2021 shall be with prior written notice and justification to the SEC addressed to the Corporate Governance and Finance Department.

The incumbent independent directors are independent based on length of service. Mr. Armando M. Medina will end his 5-year service period as independent director by 2017. Independent Directors Francisco C. Eizmendi and Antonino L. Alindogan, Jr. will end their term on June 27, 2016. Mr. Juan B. Santos and Mr. Gabriel S. Claudio have been nominated as Independent Directors for the year 2016 to 2017.

The Corporate Governance Committee ensures that each nominee for independent director meets the qualifications to be elected as such under relevant regulations.

*Fit and Proper Standards*

The Bank has adopted fit and proper standards on directors and key personnel, taking into consideration their integrity/probity, technical expertise, physical/mental fitness, competence, relevant education/financial literacy, diligence, and knowledge/ experience/ training. The qualifications of those nominated to the Board, as well as those nominated for positions requiring appointment by the Board, are reviewed and evaluated by the Corporate Governance Committee.

As a policy, directors shall maintain their professional integrity and shall continuously seek to enhance their skills, knowledge and understanding of the Bank's present activities and those that it intends to pursue. The directors shall keep abreast of the developments in the banking industry including regulatory changes through continuing education or training.

*Board Oversight and Tone at the Top*

The Board has overall responsibility for the Bank and provides oversight to senior management. Thus, it approves and oversees the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values.

The Board defines the appropriate corporate governance framework and practices, not only for the Bank, but for the entire Group. It ensures that there are governance policies and mechanisms appropriate to the structure, business and risks of the Group and the entities comprising it. Moreover, the Board sets the "tone at the top," the professional standards and the corporate values that promote integrity for self, senior management, and other employees.

*Advisory Board*

The Bank has an Advisory Board that provides informed guidance to the Board of Directors. Members of the Advisory Board are appointed by the Board of Directors, and do not have any voting rights in board meetings. The members contribute by way of providing non-binding but relevant advice during board meetings. While the By-Laws allow for up to 10 members in the Advisory Board, the Bank used to have 4 appointed Advisory Board members. However, with the death former BSP Governor Gabriel C. Singson on March 29, 2016, the Advisory Board has been reduced to 3 members. Each of these members is considered as business leaders and is of known probity and integrity.

*Performance Evaluation and Assessment of Independence*

The members of the Board conduct an annual self-assessment of the Board as a body, of themselves as the individual members and as members of the Board committees. The self-assessment includes an evaluation of the independent judgment, objectivity and balanced perspectives of each member and of the Board as a whole. The Audit Committee's self-assessment complies with SEC Memorandum Circular No. 4, s. 2012 entitled "Guidelines for the Assessment of the Performance of Audit Committees Listed in the Exchange." Additionally, the independent directors conduct an annual assessment of the Chairperson of the Board and for the year 2015, the non-executive directors will conduct an assessment of the CEO.

The self-assessment forms are based on the Bank's Revised Corporate Governance Manual, SEC and BSP rules and regulations. Results of the assessment are submitted to the Corporate Governance Committee, and are considered in making recommendations on the directors to be nominated to the Board and appointed to the board committees for the following year. Criteria used in the assessment are disclosed in the SEC Annual Corporate Governance Report (SEC

ACGR) under Board, Director, Committee and CEO Appraisal. Criteria for the assessment of the Chairperson by the independent directors are based on the duties and responsibilities of the Chairperson under the Corporate Governance Manual, BSP and SEC issuances.

*Separate Meeting of the Non-Executive Directors*

Section II.A. 2.3.14 of the Bank's Corporate Governance Manual provides that non-executive board members shall meet regularly, other than in meetings of the audit and risk oversight committees, in the absence of senior management, with the external auditor and heads of the internal audit, compliance and risk management functions.

A meeting of the non-executive directors was held in May 30, 2016.

*The Compliance Office*

RCBC is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. The Compliance Office, which was created by virtue of BSP Circular No. 145 as amended by Circular No. 747 dated February 6, 2012, is tasked with overseeing the effective implementation of the Bank's compliance program. This program is consistent with the Bank's mission of conducting its business with integrity, excellence and commitment while providing fast, affordable and quality financial services to its clients. Pursuant to BSP Circular No. 747, Section X180 of the BSP's MORB as amended and the SEC's Revised Code of Corporate Governance, the Board approved the revisions/updates to the Bank's Manual of Compliance in January 2015.

*Structure*

In order to strengthen and improve the Bank's Compliance Program, the Compliance Office was reorganized in May 2011 and expanded into three departments, namely: the Anti-Money Laundering Department, the Testing and Monitoring Department and the Corporate Governance Department under the direct control and supervision of the Compliance Officer. In December 2013, the Foreign Account Tax Compliance Act (FATCA) Compliance Department was created, also under the direct control and supervision of the Compliance Officer. Under these departments are a CG Lawyer, an AML Lawyer, AML Specialists, Compliance Specialists and FATCA Specialists. Likewise, the designated Deputy Compliance Officer (DCO) from each unit/department/division is responsible for the actual implementation of applicable regulatory issuances and the submission of compliance certifications to the Compliance Office. The Compliance Officer reports directly to the Audit Committee.

The compliance function also covers oversight of the activities of Bank's domestic subsidiaries which are under BSP supervision, such as RCBC Savings Bank, RCBC Capital Corporation, RCBC Securities, Inc., RCBC Forex Brokers Corporation, Merchants Savings and Loan Association/Rizal Microbank, and RCBC Leasing and Finance Corporation, as well as its foreign subsidiaries, such as RCBC International Finance Ltd., RCBC Investments Ltd., and RCBC Telemoney Europe SpA. This ensures consistent and uniform implementation of the requirements of the BSP and other regulatory agencies. This also involves monitoring of inter-company transactions to ensure that these are done at arm's length and in the regular course of business.

In 2015, the Board approved the revised Policy on Related Party Transactions (RPT) and the revised Charter of the RPT Committee to ensure more effective monitoring and reporting of related party transactions. Under the revised Policy, review of RPT's to ensure compliance with regulatory requirements and internal policies became part of the compliance testing program of the Testing and Monitoring Department. Under the RPT Committee Charter, the Corporate Governance Department was tasked to perform secretariat functions of the Committee.

The bank's Consolidated Changes in the Annual Corporate Governance Report (SEC Form ACGR) for the year 2015 was submitted to the Securities and Exchange Commission (SEC) on March 10, 2016, and the Philippine Stock Exchange (PSE) and the Philippine Dealing and Exchange Corporation (PDEx) on March 11, 2016.

*Policy on Related Party Transactions*

The Bank is a member of the Yuchengco Group of Companies (YGC). The Yuchengco family, primarily through Pan Malayan Management and Investment Corporation (PMMIC), is the largest shareholder. As of December 31, 2015, PMMIC owned 473,963,632 certificated shares, approximately 33.86% of the Bank's issued and outstanding common shares. Total shareholdings comprising both certificated and scripless shares amount to 583,448,082, approximately 41.68% of the Bank's issued and outstanding common shares.

The Bank and its subsidiaries, in the ordinary course of business, engage in transactions with entities within the YGC. The Bank adheres to the policy that transactions with related parties are conducted at arm's length with any consideration paid or received by the Bank or any of its subsidiaries in connection with any such transaction being on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances, and the same has been institutionalized in the Bank's Policy on Related Party Transactions (the "Policy").

The Policy adopts an expanded definition of "related parties." Related parties includes not only directors, officers, stockholders and related interests ("DOSRI") as defined under the General Banking Law and related issuances, and related parties as defined under Philippine Accounting Standards 24 ("PAS 24"), but also relatives of the Bank's directors, officers and stockholders up to second civil degree of consanguinity and affinity. The expanded definition also includes the members of the Advisory Board, consultants of the Bank, and the directors and key officers of the Bank's subsidiaries and affiliates, among others. The Bank maintains a database of related parties which is regularly updated to capture organizational and structural changes within the YGC.

Transactions directly or indirectly involving related parties as defined by Policy, where the amount involved is at least Pesos: One Million (Php1,000,000.00), are reportable as related party transactions ("RPTs").

Related parties, through their respective account officers, are enjoined to notify the Related Party Transactions Committee ("RPT Committee") of any potential RPT as soon as they become aware of it. The RPT Committee is a board committee composed of at least three members of the Board of Directors, including the Chairman who must be an independent director, and does not sit as a member of the Audit Committee.

If a transaction is determined to be an RPT, the said transaction and all its relevant details shall be submitted to the RPT Committee in order to aid the latter in evaluating whether 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.

The RPT shall thereafter be presented to the Board of Directors for approval. In the event that a member of the Board has interest in the transaction under evaluation, the said member shall not participate in the discussion and shall abstain from voting on the approval of the RPT. Pursuant to BSP Circular No. 749 as amended and the Bank's Corporate Governance Manual, the Bank's significant transactions with its DOSRI and related parties were confirmed by majority vote of the Bank's stockholders during the last annual stockholders' meeting on 22 June 2015.

Review of related party transactions is part of compliance testing of the Compliance Office as well as audit work program of the Internal Audit Group.

The Group's significant transactions with its related parties as of end December 2015 include loans and receivables and deposit liabilities. The total amount of loans outstanding was at P2.657 billion while total deposit liabilities was at P6.142 billion by end of December 2015. (see Notes 28.1 and 28.2, in the Notes to Financial Statements)

The Bank complies with existing BSP regulations on loans, credit accommodations and guarantees to its DOSRI.

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain DOSRIs. Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and business of comparable risks.

Under current BSP regulations, the amount of loans to each DOSRI, 70% of which must be secured, should not exceed the amount of his deposit and book value of his investment in the Bank. In the aggregate, loans to DOSRIs, generally, should not exceed the total capital funds or 15% of the total loan portfolio of the Bank and/or any of its lending and nonbanking financial subsidiaries, whichever is lower. As of December 31, 2015 and 2014, the Group and the Parent Company are in compliance with these regulatory requirements.

The total amount of DOSRI loans was at P5,412 as of end December 2014 and was at P1,143 by end of December 2015. (Note 28.1, Notes to Financial Statements) Certain of the Bank's major related-party transactions are described below.

- RCBC and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). 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. RCBC's lease contract with RRC is effective until December 31, 2015. The agreement was renewed for another five years until December 31, 2020. [Note 28.5(a), par.1, Notes to Financial Statements]

- On June 29, 2015, RCBC's BOD approved the engagement of Philippine Integrated Advertising Agency ("PIAA") for advertising and PR services in the amount of P75 million. The contract covers product advertising, corporate/institutional advertising, brand advertising, media planning and buying, consumer promotion, printing of collaterals and production of other merchandising materials, public relations, event management and web design.

- On 28 September 2015, RCBC BOD approved the participation of International Finance Corporation ("IFC") as an anchor investor in the proposed bond issue of RCBC. IFC has indicated to participate for up to USD75 out of a potential bond issue size of up to USD300, for a total fee of between 20-40 basis points. (See Note 19, Notes to Financial Statements)

- RCBC's and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by RCBC's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan. 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. [Note 28.4, Notes to Financial Statements]

Transactions which are considered to have no material impact on the financial statements as the amounts paid represent less than five percent (5%) of total assets:

- The Bank entered into a Memorandum of Agreement with HI, a member of the YGC, for the procurement of outsourcing services. Under the agreement, HI is the Bank's sole representative in negotiating the terms of the contracts with selected suppliers or service providers for the procurement of certain outsourcing services, primarily IT related services. The agreement stipulated that HI would not charge fees for its service except for its share in the savings generated from suppliers and service providers. Moreover, HI is obligated to ensure that the contracts they initiate do not prejudice the Bank in any way and that the Bank does not pay more than the cost of buying the items without aggregation.

- The law firm of Angara Abello Concepcion Regala & Cruz (ACCRA) Law Office is among the firms engaged by the Bank to render legal services. Atty. Teodoro Dy-Liaco Regala, Director, is a Senior Partner of ACCRA Law Office. During the year, the Company paid ACCRA legal fees that the Company believes to be reasonable for the services provided.

Transactions with subsidiaries which are eliminated in the consolidated financial statements are as follows:

- The Bank has service agreements with RCBC Savings Bank (RSB) and Bankard Inc. (now RBSC) for the in-sourced internal audit services. The Bank provides full-scope audit services to RSB and limited audit services to Bankard Inc., specifically IT audit, operations audit and financial statements review. Also, the Bank has formalized the service agreements for the internal audit services being provided to subsidiaries namely: RCBC Capital Corp., RCBC Securities, Inc., RCBC Forex Brokers Corp., Merchant Savings and Loan Association, Inc. (Rizal Microbank), RCBC Leasing and Finance Corporation and Niyog Property Holdings, Inc.

- RCBC entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Bank related to these sublease arrangement is included as part of Rentals under the Miscellaneous income account in the statement of profit or loss. [Note 28.5(a), par. 2, Notes to Financial Statements)

- On February 23, 2015, RCBC's BOD approved the subscription to P500 million 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. (Note 12.1, par. 1, Notes to Financial Statements)

- On May 25, 2015, RCBC's BOD approved the equity infusion into Rizal Microbank of P250 million 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 BSP on September 30, 2015. [Note 12.1, par. 1, Notes to Financial Statements]

- On May 25, 2015, RCBC's BOD also approved the acquisition of receivables from Rizal Microbank in the amount of P222 million.

The Bank's other transactions with affiliates include service agreements, leasing office premises to subsidiaries which is eliminated during consolidation, and regular banking transactions (including purchases and sales of trading account securities, securing insurance coverage on loans and property risks and intercompany advances), all of which are at arms' length and conducted in the ordinary course of business.

The Bank does not have any transactions with promoters within the past five (5) years. The Bank does not have transactions with parties that fall outside the definition of related parties under SFAS/PAS No. 24, but with whom the registrants or its related parties have a relationship that enables the parties to negotiate terms of material transactions that may not be available from other, more clearly independent parties on an arm's length basis.

**(J) Undertaking to Provide Annual Report**

**The Bank undertakes to provide each stockholder without charge a copy of the annual report on SEC Form 17-A upon the written request to the Bank addressed to:**

**Atty. Maria Celia H. Fernandez-Estavillo**
***Corporate Secretary***
***Rizal Commercial Banking Corporation***
***46/F, Yuchengco Tower, RCBC Plaza***
***6819 Ayala Ave. cor. Sen. Gil J. Puyat Ave.***
**Makati City**

## NOTICE OF MEETING

Dear Stockholder:

Please be advised that the Annual Stockholders' Meeting of the Bank will be held on **June 27, 2016** at the Carlos P. Romulo Auditorium, 4th Floor, RCBC Plaza, Ayala Ave., cor. Gil Puyat Ave., Makati City at 4:00 P. M., for the purpose of considering and acting on the following matters:

1. Approval of the Minutes of the Annual Meeting of the Stockholders held on June 29, 2015
2. Approval of the Annual Report and the Audited Financial Statement for 2015
3. Ratification of the actions and proceedings of the Board of Directors, different Committees and Management during the year 2015
4. Confirmation of significant transactions with DOSRI and related parties
5. Election of Directors
6. Appointment of External Auditor
7. Such other matters as may properly come before the meeting
8. Open Forum

Enclosed is a copy of the Information Statement pursuant to Section 20-IS of the Securities Regulation Code.

Only stockholders of record at close of business on May 30, 2016 will be entitled to vote at the meeting or any adjournment thereof.

<u>We are not soliciting your proxy</u>. However, you may attend the meeting by submitting a duly-accomplished proxy substantially in the the form attached thereto to Corporate Secretary through the following address not later than **5:00 P.M. of June 20, 2016**.

Corporate Secretariat Unit
21st Floor, RCBC Plaza, Tower II
6819 Ayala Avenue corner
333 Sen. Gil J. Puyat Avenue, Makati City

May 16, 2016 Makati City, Metro Manila, Philippines.

**MARIA CELIA H. FERNANDEZ-ESTAVILLO**
*Corporate Secretary*

**P R O X Y**

KNOW ALL MEN BY THESE PRESENTS:

That I, ____________________, a shareholder of the RIZAL COMMERCIAL BANKING CORPORATION (the "Company"), a domestic corporation, do hereby nominate, constitute and appoint __________________________, with full power of substitution and delegation, as the proxy, of the undersigned to represent and vote all shares registered in my name on the books of Company, or owned by me at the Annual Meeting of Stockholders on June 27, 2016 of said Corporation, and any adjournment/s thereof, as fully to all intents and purposes as I might or could do if present and acting in my person, hereby ratifying and confirming any and all acts which my said attorney and proxy may do in or upon any and all matters which may properly come before any said meeting, or any adjournment or adjournments thereof, upon the proposals enumerated below.

In case of absence of _______________________ and any substitute proxy designated by him at the said meeting, the undersigned hereby grants the Chairman of the meeting chosen accordance with the Company's By-Laws or, in case of his absence the President of the Company, full power and authority to act as alternate proxy of the undersigned at such meeting.

The proxy/substitute proxy/alternate proxy, as the case may be, shall vote subject to the instructions indicated below and the proxy/substitute proxy/alternate proxy, as the case may be, is authorized to vote in his discretion upon other business as may properly come before the Annual Meeting of Stockholders and any adjournments or postponements thereof. Where no specific instruction is clearly indicated below, the proxy/substitute proxy/alternate proxy, as the case may be, shall vote and shall be deemed authorized to vote "FOR" with respect to Proposal 1 to 6 and "FOR ALL" with respect to Proposal 7.

**PROPOSALS AND VOTING INSTRUCTIONS**

Management recommends a "FOR" vote for Proposal 1 and a "FOR ALL" vote for Proposal 2

| | | For | Against | Abstain |
|---|---|---|---|---|
| 1. | Approval of the Minutes of the Annual Meeting of the Stockholders held on June 29, 2015 | ☐ | ☐ | ☐ |
| 2. | Approval of the Annual Report and the Audited Financial Statements for 2015 | ☐ | ☐ | ☐ |
| 3. | Ratification of the actions and proceedings of the Board of Directors, different Committees and Management during the year 2015 | ☐ | ☐ | ☐ |
| 4. | Confirmation of Significant Transactions with DOSRI and Related Parties | ☐ | ☐ | ☐ |
| 5. | Appointment of Punongbayan & Araullo as External Auditor | ☐ | ☐ | ☐ |
| 6. | At their discretion, the proxies named above are authorized to vote upon such other matters as may properly come before the meeting. | ☐ | ☐ | ☐ |

7. Election of Directors 15 Directors, including 3 Independent Directors

The nominees for election as Directors/Independent Directors are:

a. Amb. Alfonso T. Yuchengco
b. Ms. Helen Y. Dee
c. Mr. Cesar E. A. Virata
d. Mr. Gil A. Buenaventura
e. Atty. Teodoro D. Regala

i. Mr. Richard G.A. Westlake
j. Mr. John Law
k. Mr. Yuh-Shing (Francis) Peng
l. Mr. Armando M. Medina, Independent Director
m. Mr. Juan B. Santos, Independent Director

f. Atty. Wilfrido E. Sanchez
g. Mr. Medel T. Nera
h. Mr. Tze Ching Chan
n. Mr. Gabriel S. Claudio, Independent Director
o. Mr. Melito S. Salazar, Jr.

| **For All** | **Withold For All** | **Exceptions** |
|---|---|---|
| ☐ | ☐ | ☐ |

Exceptions:

| | | |
|---|---|---|
| a. __________________ | f. __________________ | k. __________________ |
| b. __________________ | g. __________________ | l. __________________ |
| c. __________________ | h. __________________ | m. __________________ |
| d. __________________ | i. __________________ | n. __________________ |
| e. __________________ | j. __________________ | |

The stockholder may withhold authority to vote for any or some nominee(s), by marking the exception box and writing the name(s) of such nominee(s) on the space provided above. If the stockholder designates exception(s), the number of shares to be distributed to each of the remaining nominees must be indicated on the spaces provided above.

The stockholder can either (a) vote for all of the nominees, in which case the stockholder's total votes will be split and cast equally among the nominee(s); (b) withhold his vote for all of the nominees; or (c) vote only for some and not all of the nominees, in which case the stockholder's total votes will be distributed and cast as indicated by the stockholder in the spaces provided above. If the stockholder does not indicate the number of shares to be distributed among the remaining nominees who are not named on the spaces for exceptions above, then the stockholder's total votes will be split and cast equally among the remaining nominees. The total number of votes which a stockholder may cast is equal to fifteen (15) times the number of shares of common stock and voting preferred stock held as of the Record Date.

This proxy shall be valid for the Annual Meeting of Stockholders of the Company on June 27, 2016 unless sooner withdrawn by me through notice in writing delivered to the Corporate Secretary. In case I shall be present at the meeting, this proxy stands revoked.

IN WITNESS WHEREOF, I, the undersigned shareholder, have executed this proxy at ____________________ this _______day of __________________2016.

_________________________________
(Signature Over Printed Name)

☐ Stockholder

☐ Authorized Representative of Stockholder

Date: _______________ , 2016

PLEASE SEE REVERSE SIDE FOR ADDITIONAL INFORMATION AND INSTRUCTIONS

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RECEIPT

Received from RCBC one (1) envelope containing the following:

- ✓ Notice of Annual Meeting of Stockholders on June 27, 2016 and Information Statement (CD Format)
- ✓ Proxy Form
- ✓ Reply Envelope
- ✓ 2015 Annual Report

Received By:

_____________________________________
(Signature Over Printed Name)

Date: _____________________

## GENERAL INFORMATION AND INSTRUCTIONS

*1. Submission of Proxy*

(a) The proxy form must be completed, signed and dated by the stockholder or his duly authorized representative, and received at the principal office and mailing address of the Company not later than **5:00 P.M. of June 20, 2016**

(b) If the proxy is given by one or more joint owners of shares of stock of the Company, the proxy form must be signed by all of the joint owners.

(c) If the shares of stock of the Company are owned in an "and/or" capacity, the proxy form must be signed by either one of the registered owners.

(d) If the proxy is given by a holder of shares of stock of the Company that is a corporation, association, partnership or unincorporated entity, the proxy form must be accompanied by a certification signed by a duly authorized officer, partner or representative of such corporation, association, partnership or unincorporated entity, to the effect that the person signing the proxy form has been authorized by the governing body or has the power pursuant to the By-Laws, constitutive documents or duly approved policies of such corporation, association, partnership or unincorporated entity, for such purpose/

(e) A proxy given by a broker or dealer in respect of shares of stock of the Company carried by such broker or dealer for the account of a customer must be supported by a sworn certification that the same is given with the express prior authorization of such customer.

(f) If any customer of a broker or dealer who is the beneficial owner of shares of stock of the Company executes a sub-proxy, the broker or dealer shall certify that the signature on the sub-proxy is the true and genuine signature of its customer.

*2. Revocation of Proxy*

A holder of shares of stock of the Company who has given a proxy has the power to revoke it by written instrument duly signed and dated, which must be received at the Company's principal office and mailing address not later than **5:00 P.M. of June 24, 2016**. A proxy is also considered suspended if an individual stockholder attends the meeting in person and expresses his intention to vote in person for the duration of said meeting, and shall continue to be in full force and effect thereafter.

*3. Validation of Proxy*

The last day for validation of proxies will be the day before the date of the Annual Meeting of Stockholders. Validation of proxies will be done by the Corporate Secretary and persons designated by the Corporate Secretary who shall be under her supervision and control, in accordance with the procedure and guidelines set out in the Company's By-Laws and Section 11(b) of the SRC Rule 20.

RCBC
A YGC Member

**RIZAL COMMERCIAL BANKING CORPORATION**

# *AGENDA*

*ANNUAL MEETING OF THE STOCKHOLDERS*

| | | |
|---|---|---|
| *D A T E* | : | ***27 June 2016*** |
| *T I M E* | : | *4:00 P. M.* |
| *PLACE* | : | *Carlos P. Romulo Auditorium*<br>*4th Floor, RCBC Plaza*<br>*Ayala Ave., cor. Gil Puyat Ave.*<br>*Makati City* |

1. Proof of the Due Notice of the Meeting
2. Determination of the presence of a Quorum
3. Approval of the Minutes of the Annual Meeting of the Stockholders held on June 29, 2015
4. Approval of the Annual Report and the Audited Financial Statement for 2015
5. Ratification of the actions and proceedings of the Board of Directors, different Committees and Management during the year 2015
6. Confirmation of significant transactions with DOSRI and related parties
7. Election of Directors
8. Appointment of External Auditor
9. Other Matters
10. Open Forum
11. Adjournment

## RATIONALE AND EXPLANATION FOR AGENDA ITEMS REQUIRING SHAREHOLDERS' APPROVAL

### 1. Proof of the Due Notice of the Meeting

Rationale/ Explanation: Only stockholders of record as of May 30, 2016 shall be entitled to notice and vote at the meeting. The notice of the meeting, which shall contain, in addition to the date, hour and place of such meeting, a statement of the matters to be taken up at such meeting, shall be delivered personally or by registered mail, with return card, postage prepaid, at least fifteen (15) days prior to the date thereof, addressed to each stockholder at his address appearing on the books of the Corporation in accordance with Article IV, Section 1 (c) of the Amended By-Laws of the Corporation.

### 2. Determination of the presence of a Quorum

Rationale/ Explanation: Quorum shall consist of stockholders owning the majority of the subscribed capital stock represented in person or by proxy. The Corporate Secretary shall declare whether or not a quorum exists for the Annual Stockholders Meeting.

### 3. Approval of the Minutes of the Annual Meeting of the Stockholders held on June 29, 2015

Rationale/ Explanation: Approval of the June 29, 2015 Minutes constitutes a ratification of the accuracy and faithfulness of the Minutes to the events that transpired during said meeting, such as, (a) 2014 annual report and audited financial statements, (b) ratification of actions and proceedings of the Board of Directors, different Committees and Management during the year 2014, (c) ratification of actions and proceedings of the Board of Directors on October 29, 2014, particularly its approval of the sale of RCBC shares in RCBC Realty, (d) confirmation of significant transactions with DOSRI and related parties, (e) election of directors, and (f) appointment of external auditor;

A vote representing majority of stocks represented and eligible to vote during the meeting is required to pass a resolution on this matter.

4. **Approval of the Annual Report and the Audited Financial Statements for 2015**

| | |
|---|---|
| Rationale/ Explanation: | Approval of the Annual Report constitutes a ratification of the Bank's performance during the previous fiscal years as contained in the Annual Report. The Annual Report will contain the results of the operation of the Company during the year 2015. The financial statements as of December 31, 2015 will also be presented and endorsed for approval by the Board of Directors and the Audit Committee. The Audited Financial Statements for 2015 will be attached to the Definitive Information Statement and is incorporated in the Bank's SEC 17-A Report submitted to the Securities and Exchange Commission (SEC) and available in the Bank's website.<br><br>A vote representing majority of stocks represented and eligible to vote during the meeting is required to pass a resolution on this matter. |

5. **Ratification of the actions and proceedings of the Board of Directors, different Committees and Management during the year 2015**

| | |
|---|---|
| Rationale/ Explanation: | The corporate acts of the Board of Directors, different Committees and Management that are subject to ratification are those made from the date of the last annual stockholders' meeting (June 29, 2015) up to the date of the meeting (June 27, 2016). These include, among others, those that involve day-to-day operation, administration and management of the corporate affairs such as approval of loans, restructuring of past due accounts, sale of ROPOAs, appointment/resignation of directors/officers, sanctions/disciplinary measures imposed to erring officers/employees, authority to file criminal/civil complaints.<br><br>A vote representing majority of stocks represented and eligible to vote during the meeting is required to pass a resolution on this matter. |

6. **Confirmation of Significant Transactions with DOSRI and Related Parties**

| | |
|---|---|
| Rationale/ Explanation: | Significant transactions with DOSRI and related parties for the year 2015 include loans and deposit liabilities, lease with RCBC Realty Corporation (RRC), engagement of Philippine Integrated Advertising Agency for advertising and PR services, equity infusion to RCBC Leasing and Finance Corporation and Merchants |

Savings and Loan Association, Inc., participation of International Finance Corporation as an anchor investor in the proposed bond issue of RCBC, and transactions of the Group's respective retirement funds with the Group and the Bank consisting of investment in common shares of the Bank, other securities and debt instruments, trading gain and dividend income. Details of said related party transactions are disclosed in the Bank's SEC 17-A Report which is also available in the Bank's website.

In accordance with BSP Circular No. 895 dated December 14, 2015, which requires the Bank's stockholders to confirm by majority vote, the Bank's significant transactions with DOSRI and related parties, the above-mentioned significant transactions are presented to the stockholders for confirmation.

**7. Election of Directors**

Rationale/ Explanation: The By-Laws of the Bank allows to all shareholders, including minority stockholders, the right to nominate candidates for the Board of Directors. Nominees for election as members of the Board of Directors of RCBC, including nominees for election as independent Directors, as well as their profiles will be provided in the Definitive Information Statement.

A vote representing majority of stocks represented and eligible to vote during the meeting is required to pass a resolution on this matter.

**8. Appointment of External Auditor**

Rationale/ Explanation: The Audit Committee will screen and endorse to the stockholders the appointment of selected qualified SEC-accredited auditing firm as external auditor of RCBC for the year 2016, including their proposed remuneration. The profile of the external auditor will be provided in the Definitive Information Statement.

A vote representing majority of stocks represented and eligible to vote during the meeting is required to pass a resolution on this matter.

**9. Other Matters**

Rationale/ Explanation: Other matters that may have arisen after the Notice of Meeting and Agenda have been sent out or raised throughout the meeting may be presented to the stockholders for consideration.

Stockholders may also propose to consider such other relevant matters or issues.

**10. Open Forum**

| | |
|---|---|
| Rationale/ Explanation: | The Chairman shall also open the floor for comments and questions by stockholders. |

**11. Adjournment**

RCBC

## 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 for the years ended December 31, 2015 and 2014, 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.

RCBC

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

SUBSCRIBED AND SWORN TO BEFORE ME, this ___ day of ______ MAR 02 2016, 2016 at Makati City, Philippines, affiants exhibited to me their valid identifications, to wit:

| *Name* | *ID No.* | *Date/Place of Issue* |
|---|---|---|
| Helen Y. Dee | Passport No. EB9694250 | 11/27/2013, Manila |
| Lorenzo V. Tan | CTC No. 05109245 | 01/28/2016, Makati |
| Raul Victor B. Tan | CTC No. 02124294 | 01/11/2016, Manila |
| Florentino M. Madonza | CTC No. 05082704 | 01/11/2016, Makati |

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Page No. 37
Book No. II
Series 2016

ATTY. JOSHUA P. LAPUZ
Notary Public Makati City
Until Dec. 31, 2017
Appointment No. M-231-(2016-2017)
PTR No. 0056579 Jan. 4, 2016/ Makati
IBP Lifetime No. 04897 Roll No. 45790
MCLE Compliance No. III-0012783
G/F Fedman Bldg., 199 Salcedo St,
Legaspi Village, Makati City

P&A
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1200 Makati City
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grantthornton.com.ph

# 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.

*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 at 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.

**PUNONGBAYAN & ARAULLO**

Ma. Isabel Comedia

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

CPA Reg. No. 0092966
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

APR 13 2016
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1200 Makati City
Philippines

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

**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 financial statements of Rizal Commercial Banking Corporation (the Bank) for the year ended December 31, 2015, on which we have rendered the attached report dated February 29, 2016.

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

**PUNONGBAYAN & ARAULLO**

APR 13 2016
RECEIVED
MA. GRACIA AURORA

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

CPA Reg. No. 0092966
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)***

| | Notes | GROUP | | | | PARENT COMPANY | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **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)***

| | Notes | GROUP **2015** | GROUP 2014 | GROUP 2013 | PARENT COMPANY **2015** | PARENT COMPANY 2014 | PARENT COMPANY 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 -** | **( P 518 )** | **P 388** | **( P 97 )** | **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 ) | ( 1,718 ) | - | ( 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 |
| Transaction 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 |
| Transaction 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)***

| | Notes | GROUP 2015 | GROUP 2014 | GROUP 2013 | PARENT COMPANY 2015 | PARENT COMPANY 2014 | PARENT COMPANY 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 |

| | Note | 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 |
| 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 |

| Subsidiaries/Associates | Line of Business | Effective Percentage of Ownership 2015 | 2014 |
|---|---|---|---|
| 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.

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 owner-occupied 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 | 65,927 | 9,185 | 69,900 | 25,790 | 251,854 | 422,654 |
| **On-book gap** | ( 1,971) | 23,376 | ( 28,089) | 146,315 | ( 139,631) | - |
| **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 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 18,920 | 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** |
| **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 |

| | Group | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| 2014: | | | |
| 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 |

| | Parent Company | | |
|---|---|---|---|
| | Foreign Currencies | Philippine Pesos | Total |
| 2014: | | | |
| 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 |

| Risk Rating | Rating Description/Criteria |
|---|---|
| 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 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. 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 |

| | Group | | | |
|---|---|---|---|---|
| | 2015 | | 2014 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| ***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 | | | | |
|---|---|---|---|---|---|
| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Related amounts not set off in the statements of financial position: 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 ) | - |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Related amounts not set off in the statements of financial position: Cash received | Net amount |
| **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:

| | Group | | | | |
|---|---|---|---|---|---|
| | Notes | Gross amounts recognized in the statements of financial position | Related amounts not set off in the statements of financial position: Financial instruments | Related amounts not set off in the statements of financial position: Cash received | Net amount |
| **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** |

| | Notes | Group<br>Gross amounts recognized in the statements of financial position | | Related amounts not set off in the statements of financial position<br>Financial instruments | | Cash received | | Net amount |
|---|---|---|---|---|---|---|---|---|
| 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 | Parent Company<br>Gross amounts recognized in the statements of financial position | | Related amounts not set off in the statements of financial position<br>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** |
| 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 | 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** |

| | Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | | Level 2 | | Level 3 | | Total | |
| 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** |

| | Philippines | United States | Asia and Europe | Total |
|---|---|---|---|---|
| 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 | Fair Values 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** |
| 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:

| | Notes | Group 2015 | Group 2014 | Parent Company 2015 | Parent Company 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:

| | Notes | Group 2015 | Group 2014 | Parent Company 2015 | Parent Company 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 2015 | Group 2014 | Parent Company 2015 | Parent Company 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 2015 | Group 2014 | Parent Company 2015 | Parent Company 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 21$^{st}$ 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 2015 | | Group 2014 | | Parent Company 2015 | | Parent Company 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 |

| | Number of Shares | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| 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 | Dividend | | | Date Approved | | Date |
|---|---|---|---|---|---|---|
| Declared | Per Share | Total Amount | Record Date | by BOD | by BSP | 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 |

| | Group | | | |
|---|---|---|---|---|
| | Revaluation of AFS Securities | Accumulated Translation Adjustment on Foreign Operations | Actuarial Gains (Losses) on Defined Benefit Plan | Total |
| 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 December 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 obligation | **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 |

| | Parent Company | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| *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<br>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<br>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*

| | | Group | | |
|---|---|---|---|---|
| | Notes | **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 |

| | | Parent Company | | |
|---|---|---|---|---|
| | Notes | **2015** | 2014 | 2013 |
| Dividend income | 10.2, 12 | **P 766** | P 1,682 | P 1,000 |
| Rentals | 14.2<br>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 2015 | Group 2014 | Parent Company 2015 | Parent Company 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 |
| 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 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 |
| 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 | - |
| **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:

| | Group | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **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 |

| | Parent Company | | | |
|---|---|---|---|---|
| **Related Party Category** | **Issuances** | **Repayments** | **Interest Income** | **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** |

| Related Party Category | Parent Company Issuances | | Repayments | | Interest Income | | Loans Outstanding |
|---|---|---|---|---|---|---|---|
| 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 $5^{th}$ 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% |
| Debt-to-equity ratio: | | | |
| $\frac{\text{Total liabilities}}{\text{Total equity}}$ | **7.88** | 7.62 | 8.42 |
| Resources-to-equity ratio: | | | |
| $\frac{\text{Total resources}}{\text{Total equity}}$ | **8.88** | 8.62 | 9.42 |

| | Group | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| 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 |

# Report of Independent Auditors to Accompany the Securities and Exchange Commission Schedules Filed Separately from the Basic 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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Rizal Commercial Banking Corporation and subsidiaries (the Group) for the year ended December 31, 2015, on which we have rendered our report dated February 29, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic consolidated financial statements prepared in accordance with Financial Reporting Standards in the Philippines for Banks. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**PUNONGBAYAN & ARAULLO**

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

CPA Reg. No. 0092966
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**
**SEC Supplementary Schedules**
**December 31, 2015**

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Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule A
Financial Assets

| Instrument | Number of shares or principal amount of bonds or notes | Amount shown on the balance sheet | Valued based on the market quotation at balance sheet date | Income received and accrued |
|---|---|---|---|---|
| ***Financial Assets at Fair Value Through Profit or Loss*** | | | | |
| Government securities | 1,231,391,338 | P 1,255,692,542 | P 1,255,692,542 | P 8,884,436 |
| Corporate debt securities | 550,964,284 | 522,669,265 | 522,669,265 | 7,009,941 |
| Equity securities | 37,674,161 | 1,596,287,357 | 1,596,287,357 | 87,163,491 |
| Derivative financial assets | 1,684,977,000 | 1,737,504,249 | 1,737,504,249 | 10,172,281 |
| | | 5,112,153,412 | 5,112,153,412 | 113,230,149 |
| ***Financial Assets at Fair Value Through Other Comprehensive Income*** | | | | |
| Quoted equity securities | 58,832,040 | 2,521,431,901 | 2,521,431,901 | - |
| Unquoted equity securities | 395,138,115 | 1,686,068,705 | 1,686,068,705 | 962,187 |
| | | 4,207,500,606 | 4,207,500,606 | 962,187 |
| ***Investment securities at amortized cost*** | | | | |
| Government securities | 49,675,264,830 | 56,093,152,015 | 54,966,387,451 | 492,872,540 |
| Corporate debt securities | 44,888,155,748 | 45,787,945,383 | 44,748,683,814 | 612,006,778 |
| | | 101,881,097,399 | 99,715,071,265 | 1,104,879,318 |

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule B
DOSRI and Receivable from Principal Stockholders (Other than Related Parties)

| Name and Designation of debtor | Balance at beginning of period | Additions | Amounts collected | Amounts written off | Current | Not Current | Balance at end of period |
|---|---|---|---|---|---|---|---|
| **Rizal Commercial Banking Corporation** | | | | | | | |
| **Loans Receivable** | | | | | | | |
| Maibarara Geothermal | P 1,500,000,000 | P - | P 1,500,000,000 | P - | *Not applicable* | | P - |
| RCBC Realty Corp. | 1,006,860,643 | - | 694,360,643 | - | *Not applicable* | | 312,500,000 |
| Pan Malayan Management and Investment Corp. | 962,500,000 | - | 536,250,000 | - | *Not applicable* | | 426,250,000 |
| Malayan Colleges Inc. | 516,000,000 | - | 327,500,000 | - | *Not applicable* | | 188,500,000 |
| EEI Power Corp | 517,912,200 | - | 517,912,200 | - | *Not applicable* | | - |
| House of Investment | 400,000,000 | - | 400,000,000 | - | *Not applicable* | | - |
| Masagana Holdings | 116,272,000 | - | 116,272,000 | - | *Not applicable* | | - |
| EEI Corp | 72,976,760 | - | 72,976,760 | - | *Not applicable* | | - |
| RCBC Forex | 80,000,000 | - | 80,000,000 | - | *Not applicable* | | - |
| Honda Cars Philippines | 44,106,670 | - | 44,106,670 | - | *Not applicable* | | - |
| Employee loans | 199,292,832 | | 2,018,855 | | | | 197,273,978 |
| **Credit Card Receivables** | | | | | | | |
| Bankard (Officers) | 1,130,986 | - | 226,867 | - | *Not applicable* | | 904,119 |
| **RCBC Savings Bank** | | | | | | | |
| **Loans Receivable** | | | | | | | |
| Garcia, Edwin L. | 164,886 | - | 164,886 | - | *Not applicable* | | - |
| Yap, Al Jan G. | 449,134 | - | 449,134 | - | *Not applicable* | | - |
| Valencia, Hector N. | 253,645 | - | 253,645 | - | *Not applicable* | | - |
| Parde, Rustom D. | 498,390 | - | 498,390 | - | *Not applicable* | | - |
| Santiago, Walter | 684,681 | - | 684,681 | - | *Not applicable* | | - |
| Bacolot, Franklin C. | 166,783 | - | 166,783 | - | *Not applicable* | | - |
| Bullos, Fatima | 226,292 | - | 226,292 | - | *Not applicable* | | - |
| Romero, Angelo | 151,995 | - | 151,995 | - | *Not applicable* | | - |
| Employee loans | 46,432,266 | 449,717 | - | - | *Not applicable* | | 46,881,983 |
| **RCBC Capital Corporation** | | | | | | | |
| Employee Loans | 2,883,701 | - | 477,675 | - | *Not applicable* | | 2,406,026 |
| **RCBC Leasing and Finance, Corp.** | | | | | | | |
| **Loans Receivable** | | | | | | | |
| Employee Loans | 314,607 | 95,197 | - | - | *Not applicable* | | 409,804 |

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule C
DOSRI Eliminated During the Consolidation of Financial Statements

| Name and Designation of debtor | Balance at beginning of period | Additions | Deductions | | Classification | | Balance at end of period |
|---|---|---|---|---|---|---|---|
| | | | Amounts collected | Amounts written off | Current | Not Current | |
| **Rizal Commercial Banking Corporation** | | | | | | | |

*Not applicable*

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule D
Intangible Assets - Other Assets

| Description | Beginning Balance | Additions at cost | Deductions | | | Ending Balance |
|---|---|---|---|---|---|---|
| | | | Charged to cost and expenses | Charged to other accounts | Other changes additions (deductions) | |
| Goodwill | P 425,985,979 | P - | P - | P - | P - | P 425,985,979 |
| Branch licenses | 56,949,240 | 1,000,000,000 | 34,639,678 | - | - | 1,022,309,562 |
| Software | 821,731,031 | 347,958,980 | 233,996,939 | - | - | 935,693,072 |
| Trading rights | 570,349 | - | - | - | - | 570,349 |

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule E
Long Term Debt

| Title of Issue and type of obligation | Amount authorized by indenture | Amount shown under caption "Current portion of long-term debt" in related balance sheet | | Amount shown under caption "Long-Term Debt" in related balance sheet |
|---|---|---|---|---|
| **Rizal Commercial Banking Corporation** | | | | |
| **US$ 275,000,000 Senior Notes** | | | | |
| Interest Rate: 5.25% Fixed Rate | | | | |
| Maturity Date: 1/31/2017 | | | | |
| Number of periodic installments: Not applicable | US$ 275,000,000 | Not applicable | P | 12,946,353,097 |
| **PHP 4,000,000,000 Unsecured Subordinated Debt** | | | | |
| Interest Rate: 7.75% Fixed Rate | | | | |
| Maturity Date: 5/15/2019 | | | | |
| Number of periodic installments: Not applicable | PHP 4,000,000,000 | Not applicable | P | 9,935,992,668 |
| **US$ 243,000,000 Senior Notes** | | | | |
| Interest Rate: 4.25% Fixed Rate | | | | |
| Maturity Date: 1/22/2020 | | | | |
| Number of periodic installments: Not applicable | US$ 243,000,000 | Not applicable | P | 11,398,291,819 |
| **US$ 320,000,000 Senior Notes** | | | | |
| Interest Rate: 3.45% Fixed Rate | | | | |
| Maturity Date: 2/2/2021 | | | | |
| Number of periodic installments: Not applicable | US$ 320,000,000 | Not applicable | P | 15,019,720,970 |

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule F
Indebtedness to Related Parties (Long-Term Loans from Related Companies)

| Name of related party | Balance at beginning of period | Balance at end of period |
|---|---|---|

*Not applicable*

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule G
Guarantees of Securities of Other Issuers

| Name of issuing entity of securities guaranteed by the company for which this statement is filed | Title of issue of each class of securities guaranteed | Total amount guaranteed and outstanding | Amount owned by person for which statement is filed | Nature of guarantee |
|---|---|---|---|---|

*Not applicable*

Rizal Commercial Banking Corporation and Subsidiaries
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule H
Capital Stock

| Title of Issue | Number of shares authorized | Number of shares issued and outstanding as shown under related balance sheet caption | Number of shares reserved for options, warrants, conversion and other rights | Number of shares held by related parties | Number of shares held by directors, officers and employees |
|---|---|---|---|---|---|
| Preferred Shares[1] *voting, non-cumulative, non-redeemable, participating convertible into common shares* | 200,000,000 | 310,145 | - | - | - |
| Common Shares[2] | 1,400,000,000 | 1,399,908,746 | - | 969,115,516 | 59,376,502 |

[1] On July 8, 2011, preferred shares amounting to P180,823,110 or 18,082,311 shares were converted to 5,820,000 common shares in 2011.

On September 30, 2011, an additional 28,011 preferred shares with P10 par value from unissued portion were converted into 9,018 common shares having P10 par value, and accounting the difference as additional paid in capital in the amount of P190,000.

On February 21, 2012, preferred shares amounting to P1,830 or 183 shares were converted to 58 common shares.

On March 7, 2012, preferred shares amounting to P21,756,450 or 2,175,645 shares were converted to 700,441 common shares.

On March 30, 2012, preferred shares amounting to P666,240 or 66,624 shares were converted to 21,449 common shares.

[2] On June 28, 2010, the Parent Company's stockholders owning or representing more than 2/3 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 authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or purchase any shares of any class, by amending its Articles of Incorporation. The increase in authorized capital stock of the Parent Company was approved by BSP and SEC on August 24, 2011 and September 16, 2011, respectively, totalling 1,600,000,000 shares.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprised of 50,427,931 treasury shares (with total cost of P771,207,492) and 23,020,344 unissued shares (with total par value of P230,203,440), to International Finance Corporation for a total consideration of P2,130,000,000 representing 7.2% ownership interest. The issuance resulted to recognition of APIC amounting to P1,128,589,043.

Also, on July 8, 2011, the Parent Company issued 5,821,548 common shares from the treasury shares (with total cost of P58,893,567) and 120,730,177 common shares (with total par value of P1,207,301,770) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P2,403,804,688.27 .

On July 8, 2011, the Parent Company issued 5,821,548 common shares from the treasury shares (with total cost of P58,893,567) and 120,730,177 common shares (with total par value of P1,207,301,770) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P2,403,804,688.27 .

On July 8, 2011, the Parent Company issued 5,821,548 common shares from the treasury shares (with total cost of P58,893,567) and 120,730,177 common shares (with total par value of P1,207,301,770) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P2,403,804,688.27 .

On March 15, 2013, the Parent Company issued 63,650,000 comoon shares from the unissued capital stock (with total cost of P636,500,000) to Pan Malayan Management that is equivalent to approximately 5.3% The issuance resulted to recogntiion of APIC amounting to P3,437,100,000.

On April 26, 2013, the Parent Company issued 71,151,505 common shares from the unissued capital stock (with total cost of P711,515,050) to International Finance Corporation that is equivalent to approximately 5.6%. The issuance resulted to recognition of APIC amounting to P3,415,272,250.

On September 30, 2014 preferred shares amounting to P37,910 or 3,791 shares were converted to 1,090 common shares.

On May 25, 2015 preferred shares amounting to P281,460 or 28,146 shares were converted to 6,746 common shares.

On April 20, 2015, the Parent Company issued 124,242,272 common shares to Cathay Life Insurance Corporation at P64 per share for a total issue price of P7,951,505,408. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709,082,688 reduced by the total issuance cost of P1,463,697,230.

**Rizal Commercial Banking Corporation and Subsidiaries**
**SEC Released Amended SRC Rule 68**
**Schedule of Recent Public Offerings**

**2008 - P7,000,000,000 Subordinated Debt**

*Gross Proceeds:* P7,000,000,000 (Issue Price: 100.00%)
*Related Expenses:* P60,424,572
*Use of Proceeds:* To raise additional Lower Tier 2 supplementary capital, redeem its existing Peso-denominated Lower Tier 2 capital and further increase and strengthen its capital base.

**2009 - P4,000,000,000 Subordinated Debt**

*Gross Proceeds:* P4,000,000,000 (Issue Price: 100.00%)
*Related Expenses:* P30,352,644
*Use of Proceeds:* To raise additional Tier 2 capital and to further increase and strengthen the Bank's capital base.

**2010 - US$ 250,000,000 Senior Note**

*Gross Proceeds:* US$250,000,000 (Issue Price: 100.00%)
*Related Expenses:* US$1,705,578
*Use of Proceeds:* To be used for general banking and re-lending purposes.

**2011 - P3,850,000,000 Long Term Negotiable Certificates of Time Deposit**

*Net Proceeds:* P3,389,382,206 (Issue Price: 100.00% for P2,033,210,000 notes and 74.05% for P1,816,790,000 notes)
*Use of Proceeds:* To be used for general banking and re-lending purposes.

**2012 - US$ 275,000,000 Senior Note**

*Gross Proceeds:* US$270,000,000 (Issue Price: US$ 250,000 @ 100.00% and US$75,000,000 @ P102)
*Related Expenses:* US$1,193,825.35
*Use of Proceeds:* To be used for general banking and re-lending purposes.

**2013 - P5,000,000,000 Long Term Negotiable Certificates of Time Deposit (LTNCD)**

*Net Proceeds:* P4,626,797,247.90 (Issue Price: 100.00% for P2,860,260,000 Fixed Rate LTNCDs and 82.5585% for P2,139,740,000 Zero Coupon LTNCDs)
*Use of Proceeds:* To expand the Bank's long-term deposit base and support long-term asset growth and for other general funding purposes.

**2014 - P2,100,000,000 Long Term Negotiable Certificates of Time Deposit (LTNCD)**

*Gross Proceeds:* P2,100,000,000 (Issue Price: 100.00%)
*Use of Proceeds:* To expand the Bank's long-term deposit base and support long-term asset growth and for other general funding purposes.

**2014 - P10,000,000,000 Tier 2 Unsecured Subordinated Notes**

*Gross Proceeds:* P10,000,000,000 (Issue Price: 100.00%)
*Use of Proceeds:* To strengthen the Bank's capital base and capital adequacy ratio (CAR) and support asset growth as well as expand the bank's long-term funding base

**Rizal Commercial Banking Corporation and Subsidiaries**
**SEC Released Amended SRC Rule 68**
**Schedule of Financial Indicators**

| | **2015** | 2014 | 2013 |
|---|---|---|---|
| Return on average equity | **9.33%** | 9.23% | 12.18% |
| Return on average resources | **1.09%** | 1.04% | 1.39% |
| Net interest margin | **4.15%** | 4.30% | 4.22% |
| Profit margin | **23.07%** | 19.98% | 23.07% |
| Capital adequacy ratio | **15.72%** | 15.37% | 16.52% |
| Cost to income ratio | **67.74%** | 64.51% | 61.21% |
| Liquidity ratio | **0.43** | 0.49 | 0.42 |
| Debt-to-equity ratio | **7.88** | 7.62 | 8.42 |
| Resources-to-equity ratio | **8.88** | 8.62 | 9.42 |
| Interest rate coverage ratio | **1.81** | 2.02 | 2.20 |

**Rizal Commercial Banking Corporation and Subsidiaries**
**Schedule of Philippine Financial Reporting Standards and Interpretations**
**Adopted by the Securities and Exchange Commission and the**
**Financial Reporting Standards Council as of December 31, 2015**

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements** | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| **Practice Statement Management Commentary** | | | ✓ | |
| ***Philippine Financial Reporting Standards (PFRS)*** | | | | |
| **PFRS 1 (Revised)** | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Government Loans | ✓ | | |
| **PFRS 2** | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| **PFRS 3 (Revised)** | Business Combinations | ✓ | | |
| **PFRS 4** | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| **PFRS 5** | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| **PFRS 6** | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| **PFRS 7** | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets (d) | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition (d) | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures *(effective when PFRS 9 is first applied)* | ✓ | | |
| **PFRS 8** | Operating Segments | ✓ | | |
| **PFRS 9** | Financial Instruments (a) (2009, 2010 and 2013 versions) | ✓ | | |
| | Financial Instruments (2014) (b) *(effective January 1, 2018)* | | | ✓ |
| **PFRS 10** | Consolidated Financial Statements | ✓ | | |
| | Amendment to PFRS 10: Transition Guidance | ✓ | | |
| | Amendment to PFRS 10: Investment Entities | ✓ | | |
| | Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (b) *(date deferred indefinitely)* | | | ✓ |
| | Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception (b) *(effective January 1, 2016)* | | | ✓ |
| **PFRS 11** | Joint Arrangements | ✓ | | |
| | Amendment to PFRS 11: Transition Guidance | ✓ | | |
| | Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations (b) *(effective January 1, 2016)* | | ✓ | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PFRS 12** | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendment to PFRS 12: Transition Guidance | ✓ | | |
| | Amendment to PFRS 12: Investment Entities | ✓ | | |
| | Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception (b)*(effective January 1, 2016)* | | | ✓ |
| **PFRS 13** | Fair Value Measurement | ✓ | | |
| **PFRS 14** | Regulatory Deferral Accounts (b) *(effective January 1, 2016)* | | | ✓ |
| ***Philippine Accounting Standards (PAS)*** | | | | |
| **PAS 1 (Revised)** | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendment to PAS 1: Disclosure Initiative (b) *(effective January 1, 2016)* | | | ✓ |
| **PAS 2** | Inventories | | | ✓ |
| **PAS 7** | Statement of Cash Flows | ✓ | | |
| **PAS 8** | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| **PAS 10** | Events After the Reporting Period | ✓ | | |
| **PAS 11** | Construction Contracts | | | ✓ |
| **PAS 12** | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| **PAS 16** | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Bearer Plants (b) *(effective January 1, 2016)* | | | ✓ |
| | Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization (b) *(effective January 1, 2016)* | | | ✓ |
| **PAS 17** | Leases | ✓ | | |
| **PAS 18** | Revenue | ✓ | | |
| **PAS 19 (Revised)** | Employee Benefits | ✓ | | |
| | Amendment to PAS 19: Defined Benefit Plans - Employee Contributions | ✓ | | |
| **PAS 20** | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| **PAS 21** | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| **PAS 23 (Revised)** | Borrowing Costs | ✓ | | |
| **PAS 24 (Revised)** | Related Party Disclosures | ✓ | | |
| **PAS 26** | Accounting and Reporting by Retirement Benefit Plans | ✓ | | |
| **PAS 27 (Revised)** | Separate Financial Statements | ✓ | | |
| | Amendment to PAS 27: Investment Entities | ✓ | | |
| | Amendment to PAS 27: Equity Method in Separate Financial Statements (b) *(effective January 1, 2016)* | | | ✓ |
| **PAS 28 (Revised)** | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (b) *(date deferred indefinitely)* | | | ✓ |
| | Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception (b) *(effective January 1, 2016)* | | | ✓ |
| **PAS 29** | Financial Reporting in Hyperinflationary Economies | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **PAS 32** | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| **PAS 33** | Earnings Per Share | ✓ | | |
| **PAS 34** | Interim Financial Reporting | ✓ | | |
| **PAS 36** | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets | ✓ | | |
| **PAS 37** | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| **PAS 38** | Intangible Assets | ✓ | | |
| | Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (b) *(effective January 1, 2016)* | | | ✓ |
| **PAS 39 (d)** | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | ✓ | | |
| **PAS 40** | Investment Property | ✓ | | |
| **PAS 41** | Agriculture | | | ✓ |
| | Amendment to PAS 41: Bearer Plants (b) *(effective January 1, 2016)* | | | ✓ |
| ***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)*** | | | | |
| **IFRIC 1** | Changes in Existing Decommissioning, Restoration and Similar Liabilities (c) | ✓ | | |
| **IFRIC 2** | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| **IFRIC 4** | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| **IFRIC 5** | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (c) | ✓ | | |
| **IFRIC 6** | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| **IFRIC 7** | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| **IFRIC 9 (d)** | Reassessment of Embedded Derivatives | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives | ✓ | | |
| **IFRIC 10** | Interim Financial Reporting and Impairment | ✓ | | |
| **IFRIC 12** | Service Concession Arrangements | | | ✓ |
| **IFRIC 13** | Customer Loyalty Programmes | ✓ | | |
| **IFRIC 14** | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction (c) | ✓ | | |
| **IFRIC 16 (d)** | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| **IFRIC 17** | Distributions of Non-cash Assets to Owners (c) | ✓ | | |
| **IFRIC 18** | Transfers of Assets from Customers (c) | ✓ | | |

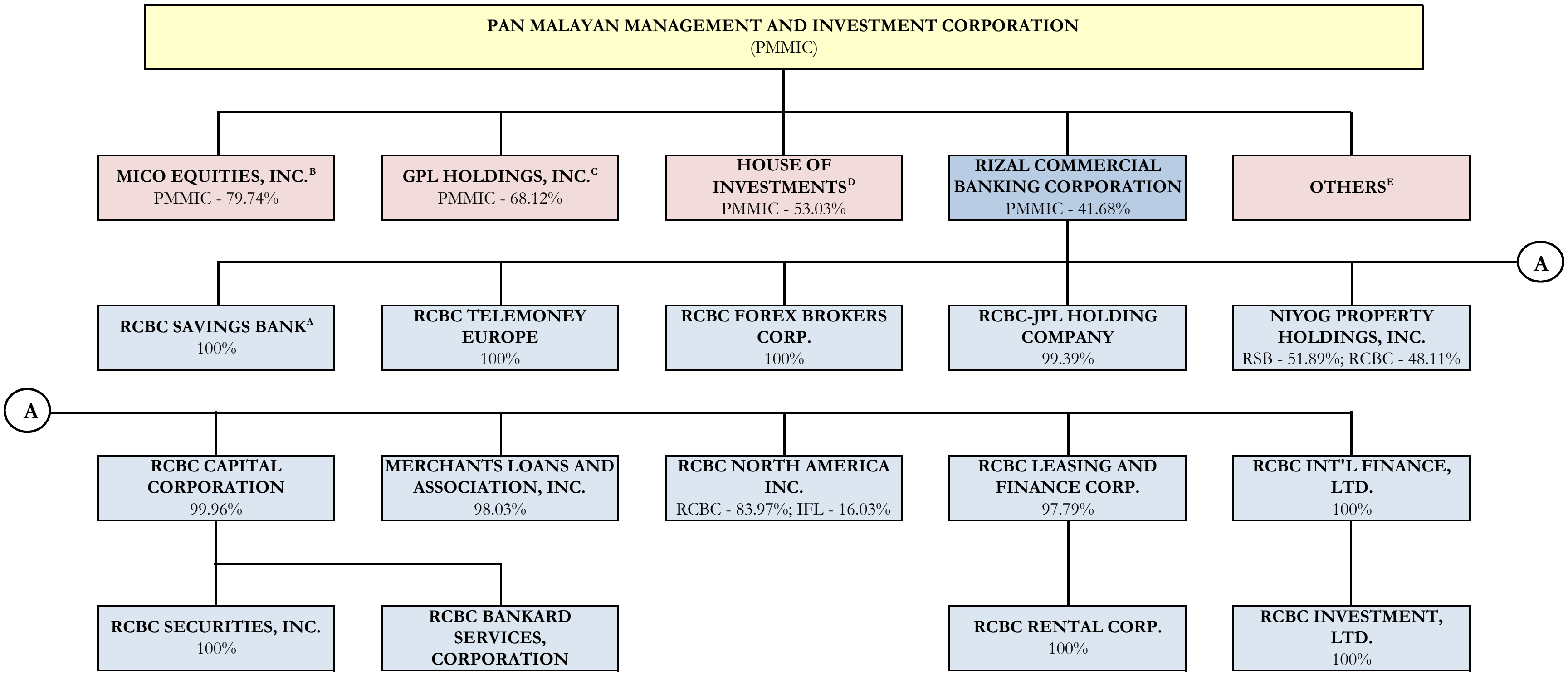
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **IFRIC 19** | Extinguishing Financial Liabilities with Equity Instruments (c) | ✓ | | |
| **IFRIC 20** | Stripping Costs in the Production Phase of a Surface Mine (c) | ✓ | | |
| **IFRIC 21** | Levies | ✓ | | |
| ***Philippine Interpretations - Standing Interpretations Committee (SIC)*** | | | | |
| **SIC-7** | Introduction of the Euro | | | ✓ |
| **SIC-10** | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| **SIC-13** | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | ✓ | | |
| **SIC-15** | Operating Leases - Incentives | ✓ | | |
| **SIC-25** | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders (c) | ✓ | | |
| **SIC-27** | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| **SIC-29** | Service Concession Arrangements: Disclosures | | | ✓ |
| **SIC-31** | Revenue - Barter Transactions Involving Advertising Services (c) | ✓ | | |
| **SIC-32** | Intangible Assets - Web Site Costs (c) | ✓ | | |

[a] PFRS 9 (2009, 2010 and 2013 versions) is effective January 1, 2018 but the Group opted to early adopt with January 1, 2014 as the date of initial application.

[b] These standards will be effective for periods subsequent to 2015 and are not early adopted by the Group.

[c] These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

[d] PAS 39 and all related amendments, improvements and interpretations thereto were applied by the Group prior to January 1, 2014. These were superseded by PFRS 9 (2009, 2010 and 2013 versions) effective January 1, 2014 except for the principles relating to impairment and hedge accounting.



PAN MALAYAN MANAGEMENT AND INVESTMENT CORPORATION
(PMMIC)
MICO EQUITIES, INC.[B]
PMMIC - 79.74%
GPL HOLDINGS, INC.[C]
PMMIC - 68.12%
HOUSE OF INVESTMENTS[D]
PMMIC - 53.03%
RIZAL COMMERCIAL BANKING CORPORATION
PMMIC - 41.68%
OTHERS[E]
RCBC SAVINGS BANK[A]
100%
RCBC TELEMONEY EUROPE
100%
RCBC FOREX BROKERS CORP.
100%
RCBC-JPL HOLDING COMPANY
99.39%
NIYOG PROPERTY HOLDINGS, INC.
RSB - 51.89%; RCBC - 48.11%
A
A
RCBC CAPITAL CORPORATION
99.96%
MERCHANTS LOANS AND ASSOCIATION, INC.
98.03%
RCBC NORTH AMERICA INC.
RCBC - 83.97%; IFL - 16.03%
RCBC LEASING AND FINANCE CORP.
97.79%
RCBC INT'L FINANCE, LTD.
100%
RCBC SECURITIES, INC.
100%
RCBC BANKARD SERVICES, CORPORATION
RCBC RENTAL CORP.
100%
RCBC INVESTMENT, LTD.
100%

## SUBSIDIARIES:

| Company | Country of Incorporation | RCBC's Effective Ownership |
|---|---|---|
| **A. RCBC Savings Bank, Inc. (RSB) and subsidiaries** | | |
| Stockton Realty Development Corporation | Philippines | **100.00** |
| Top Place Properties Development Corporation | Philippines | **100.00** |
| Goldpath Properties Development Corporation | Philippines | **100.00** |
| Best Value Property and Development Corporation | Philippines | **100.00** |
| Crescent Park Property and Development Corporation | Philippines | **100.00** |
| Crestview Properties Development Corporation | Philippines | **100.00** |
| Eight Hills Property and Development Corporation | Philippines | **100.00** |
| Fairplace Property and Development Corporation | Philippines | **100.00** |
| Gold Place Properties Development Corporation | Philippines | **100.00** |
| Greatwings Properties Development Corporation | Philippines | **100.00** |
| Happyville Property and Development Corporation | Philippines | **100.00** |
| Landview Property and Development Corporation | Philippines | **100.00** |
| Lifeway Property and Development Corporation | Philippines | **100.00** |
| Niceview Property and Development Corporation | Philippines | **100.00** |
| Princeway Properties Development Corporation | Philippines | **100.00** |

| Company | Country of Incorporation | MICO's Effective Ownership |
|---|---|---|
| **B. MICO Equities, Inc. and Subsidiaries** | | |
| Malayan International Insurance Corporation Limited (Malayan International) and Subsidiaries | Bahamas | **100.00** |
| Malayan Insurance Company (U.K.) Limited | United Kingdom | **100.00** |
| Malayan Insurance Company (H.K.) Limited | Hongkong | **100.00** |
| ASIA-PAC Reinsurance Company, Limited | British Virgin Islands | **100.00** |
| Malayan Securities Corporation | Philippines | **100.00** |
| Malayan Insurance Co., Inc. and subsidiaries and joint venture | Philippines | **88.70** |
| Bankers Assurance Corporation (BAC), formerly Malayan-Zurich Insurance Company, Inc. | Philippines | **88.70** |
| The First Nationwide Assurance Corporation | Philippines | **45.30** |

| Company | Country of Incorporation | GPL's Effective Ownership |
|---|---|---|
| **C. GPL Holdings, Inc. and Subsidiaries** | | |
| Grepa Realty Holdings Corporation | Philippines | **75.00** |
| Sun Life Grepa Financial, Inc. (Sunlife Grepa) | Philippines | **51.00** |
| Grepalife Asset Management Corporation (GAMC) | Philippines | **51.00** |
| Great Life Financial Assurance Corporation (GLFAC) | Philippines | **51.00** |

| Company | Country of Incorporation | HI's Effective Ownership |
|---|---|---|
| **D. House of Investments and Subsidiaries** | | |
| Landev Corporation and Subsidiaries | Philippines | **100.00** |
| Greyhounds Security and Investigation Agency Corporation | Philippines | **100.00** |
| Hexagon Lounge, Inc. | Philippines | **100.00** |
| Blackhounds Security and Investigation Agency | Philippines | **100.00** |
| Xamdu Motors, Inc. | Philippines | **100.00** |
| Investment Managers, Inc. | Philippines | **100.00** |
| Zambowood Realty and Development Corporation | Philippines | **100.00** |
| Zamboanga Carriers, Inc. | Philippines | **100.00** |
| iPeople, Inc. and Subsidiaries | Philippines | **67.34** |
| Malayan Colleges, Inc. (MCI) (Operating Under the Name of Mapua Institute of Technology, Inc. and Subsidiaries | Philippines | **67.34** |
| Mapua Information Technology Center, Inc. | Philippines | **67.34** |
| Mapua Techserv, Inc. | Philippines | **67.34** |
| San Lorenzo Ruiz Institute of Health Services, Inc. | Philippines | **67.34** |
| Malayan High School of Science, Inc. | Philippines | **67.34** |
| Malayan Colleges Laguna, Inc. led by Mapua School of Engineering | Philippines | **67.34** |
| People eServe Corporation | Philippines | **67.34** |
| Pan Pacific Computer Center, Inc. | Philippines | **67.34** |
| Honda Cars Kalookan, Inc. | Philippines | **55.00** |
| EEI Corporation (EEI Corp.) and Subsidiaries | Philippines | **50.32** |
| EEI (BVI) Limited and Subsidiaries | British Virgin Islands | **50.32** |
| Clear Jewel Investments, Ltd. | Hongkong | **50.32** |
| EEI Nouvelle Caledonie | New Caledonia | **50.32** |
| Nimaridge Investments, Limited and Subsidiary | British Virgin Islands | **50.32** |
| EEI (PNG) Ltd. | Papua New Guinea | **50.32** |
| EEI Corporation (Guam) Inc. | United States of America | **50.32** |
| EEI Construction and Marine Corporation | Philippines | **50.32** |
| EEI Power Construction (EEI Power) | Philippines | **50.32** |
| EEI Realty Corporation (EEI Realty) | Philippines | **50.32** |
| EEI Subic Corporation | Philippines | **50.32** |
| Equipment Engineers, Inc. | Philippines | **50.32** |

| Company | Country of Incorporation | HI's Effective Ownership |
|---|---|---|
| **D. House of Investments and Subsidiaries** | | |
| Gulf Asia International Corporation and Subsidiaries (GAIC) | Philippines | **50.32** |
| GAIC Manpower Services, Inc. | Philippines | **50.32** |
| GAIC Professional Services, Inc. | Philippines | **50.32** |
| Bagumbayan Equipment & Industrial Products, Inc. | Philippines | **50.32** |
| Philrock Construction and Services, Inc. | Philippines | **50.32** |
| Philmark, Inc. | Philippines | **50.32** |
| Zamboanga Industrial Financing Corporation | Philippines | **50.00** |

| Company | Country of Incorporation | PMMIC's Effective Ownership |
|---|---|---|
| **E. Others** | | |
| RCBC Land | Philippines | **100.00** |
| Y Realty | Philippines | **100.00** |
| Pan Malayan Express | Philippines | **100.00** |
| Philippine Integrated Advertising Agency, Inc (PIAA) | Philippines | **100.00** |
| Principal Business Marketing Co., Inc. | Philippines | **100.00** |
| Skanfil Shipping, Inc . | Philippines | **81.25** |
| Philippine Overseas Tankers Transport, Inc. (PO Tankers) | Philippines | **65.00** |
| Luisita Industrial Park Corporation (LIPCo) | Philippines | **59.73** |
| RCBC Realty Corporation (RCBC Realty) | Philippines | **55.30** |
| Grepaland | Philippines | **48.25** |

## ASSOCIATES:

| Company | Country of Incorporation | PMMIC's Effective Ownership |
|---|---|---|
| **Under PMMIC** | | |
| Enrique T. Yuchengo, Inc. (ETY) | Philippines | **45.90** |
| Trans-Swedish Shipping, Inc. | Philippines | **45.02** |
| Pan Malayan Realty | Philippines | **24.09** |
| Seafront Resources Corporation (Seafront) | Philippines | **20.09** |
| International Information Services | Philippines | **16.65** |

| Company | Country of Incorporation | RCBC's Effective Ownership |
|---|---|---|
| **Under RCBC** | | |
| YGC Corporate Services, Inc. (YCSI) | Philippines | **40.00** |
| Luisita Industrial Park Co. (LIPC)* | Philippines | **35.00** |
| Honda Cars Philippines, Inc. (HCPI) | Philippines | **12.88** |

* *Refer to Section E for PMMIC's total ownership*

| Company | Country of Incorporation | HI's Effective Ownership |
| --- | --- | --- |
| **Under House of Investments** | | |
| Hi-Eisai Pharmaceutical, Inc. | Philippines | **50.00** |
| Al Rushaid Construction Corporation | Philippines | **49.00** |
| La Funeraria Paz Sucat, Inc. | Philippines | **30.00** |
| T'boli Agro-Industrial Development, Inc. | Philippines | **28.47** |
| Manila Memorial Park Cemetery, Inc. (Manila Memorial) | Philippines | **25.98** |
| Lo-oc Limestone Development Corporation (Lo-oc Limestone) | Philippines | **25.00** |
| Petroenergy | Philippines | **22.41** |

**RIZAL COMMERCIAL BANKING CORPORATION**
**Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City**

**Parent Company Reconciliation of Retained Earnings Available for Dividend Declaration**
**December 31, 2015**
***(Amounts in Millions of Philippine Pesos)***

| | | |
|---|---|---|
| **Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, As Restated** | | **P 11,811** |
| **Net Profit Realized during the Year** | | |
| **Net profit per audited financial statements** | | **4,268** |
| **Non-actual/unrealized income** | | |
| Deferred income tax | | ( 443 ) |
| Fair value gain on financial assets at fair value through profit or loss | | ( 127 ) |
| | | **3,698** |
| **Other Transactions During the Year** | | |
| Dividends declared | ( P 1,059 ) | |
| Redemption premium on hybrid perpetual securities | ( 723 ) | |
| Appropriation of retained earnings to trust reserves | ( 15 ) | ( 1,797 ) |
| **Unappropriated Retained Earnings Available for Dividend Declaration at End of Year** | | **P 13,712** |

# CERTIFICATION

I, **MARIA CELIA H. FERNANDEZ-ESTAVILLO**, incumbent *Corporate Secretary* of Rizal Commercial Banking Corporation, a corporation organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal place of business at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue corner Sen. Gil Puyat Avenue, Makati City ("Company"), do hereby certify that, to the best of my knowledge, none of the directors and officers listed in the Information Statement work with the government, except for Mr. Juan B. Santos who was nominated for Independent Director and currently serves as the Chairman of the Social Security Commission, the governing board of Social Security System (SSS).

IN WITNESS WHEREOF, I have hereunto signed this Certificate this MAY 1 9 2016 day of May 2015 at Makati City, Philippines.

**MARIA CELIA H. FERNANDEZ-ESTAVILLO**
*Affiant*

SUBSCRIBED AND SWORN to before me this MAY 1 9 2016 day of May 2016 at Makati City, affiant MARIA CELIA H. FERNANDEZ-ESTAVILLO who is personally known to me exhibiting to me her Community Tax Certificate No. 15198090 issued on 08 January 2016 at Manila City, and Passport No. EB8361199, valid until 9 June 2018.

ATTY. CATALINO VICENTE L. ARABIT
Notary Public
Appointment No M-80 (2015-2016)
Until 31 December 2016
PTR No. 5321928; 01/05/16 Makati City
IBP No. 1018544; 01/06/16 Makati City
ROLL No. 4[illegible]
21st Floor Yuch[illegible] RCBC Plaza
[illegible]

Doc. No. 405;
Page No. 82;
Book No. 307
Series of 2016.

RCBC
A YGC Member

16 May 2016

**SECURITIES AND EXCHANGE COMMISSION**
SEC Building, EDSA Greenhills,
Mandaluyong City, Metro Manila

Through: **Mr. VICENTE GRACIANO P. FELIZMENIO, JR.**
*Director*
Markets and Securities Regulation Department

Subject: Undertaking to Submit Written Consent

Dear Mr. Felizmenio:

In connection with the Information Statement (SEC Form 20-IS) of Rizal Commercial Banking Corporation, the Corporation undertakes to submit to the Securities and Exchange Commission, prior to the Annual Stockholders' Meeting to be held on June 27, 2016, a written consent from Social Security System allowing Mr. Juan B. Santos to sit in the Board of Directors of the Corporation.

Hoping your kind consideration. Thank you.

Very truly yours,

**MARIA CELIA H. FERNANDEZ-ESTAVILLO**
*Corporate Secretary*