RCBC
We believe in you.

15 March 2019

MS. JANET A. ENCARNACION
Head, Disclosure Department
THE PHILIPPINE STOCK EXCHANGE, INC.
PSE Tower, 5th Avenue cor. 28th Street
Bonifacio Global City
Taguig City

Dear Ms. Encarnacion,

Please find attached the Audited Financial Statements of the Bank and its Subsidiaries as of December 31, 2018 and the corresponding Notes to Financial Statements.

Thank you.

Very truly yours,

MA. CHRISTINA P. ALVAREZ
Senior Vice President and Corporate Information Officer
Rizal Commercial Banking Corporation

cc: Atty. Joseph B. Evangelista, Philippine Dealing and Exchange Corporation

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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

Report on the Audit of the Financial Statements

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

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

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

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

Description of the Matter

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

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

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

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

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

How the Matter was Addressed in the Audit

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

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

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

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

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

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

Description of the Matter

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

How the Matter was Addressed in the Audit

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

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

Description of the Matter

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

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

How the Matter was Addressed in the Audit

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

(d) Recoverability of Deferred Tax Assets

Description of the Matter

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

How the Matter was Addressed in the Audit

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

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

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

Assessment of Goodwill Impairment

Description of the Matter

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

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

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

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

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

How the Matter was Addressed in the Audit

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

PUNONGBAYAN & ARAULLO

By: **Anthony L. Ng**
Partner

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

February 26, 2019

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

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

See Notes to Financial Statements.

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

See Notes to Financial Statements.

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

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

See Notes to Financial Statements.

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

See Notes to Financial Statements.

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

1. CORPORATE MATTERS

1.1 Incorporation and Operations

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

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

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

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

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

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

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

1.2 Subsidiaries and Associates

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

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

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

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

Explanatory Notes:

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

1.3 Plan of Merger

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

1.4 Approval of Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements.* The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) *Investment securities reclassified from FVPL to FVOCI*

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

(b) *Debt security reclassified from FVPL to amortized cost*

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

(c) Debt securities reclassified from amortized cost to FVOCI

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

(d) Expected credit losses on investment in debt securities

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

(e) Expected credit losses on loans and receivables

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

(f) Exposures at default on loan commitments

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

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

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

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

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

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

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

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

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

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

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

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

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, amendments and annual improvements, and interpretations to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

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

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

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

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

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

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

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

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

(vi) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Group to consider the probability of the tax treatment being accepted by the tax authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Group has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

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

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

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

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

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

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

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

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

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

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

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

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

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

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

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

(b) Investments in Associates

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

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

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

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

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

(c) Interest in Jointly Controlled Operations

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

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

(d) Transactions with Non-controlling Interests

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

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

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

2.4 Segment Reporting

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

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

2.5 Financial Instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

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

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

(a) Classification and Measurement of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

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

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

Financial assets meeting these criteria are measured initially at fair value and are subsequently measured at amortized cost using the effective interest method, less any allowance for ECL.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,

- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

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

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

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

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

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

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

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

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

(c) Reclassification of Financial Assets

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

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Financial Assets Carried at Amortized Cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(f) Financial Liabilities at Amortized Cost

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

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

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

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

(g) Derecognition of Financial Assets

(i) Modification of Loans

When the Group derecognizes a financial asset through renegotiation or modification of the contractual payment terms of the loans due to significant credit distress of the borrower, the Group assesses whether or not the new terms are substantially different to the original terms of the instrument. In making such assessment, the Group considers, among others:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;

- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a new asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount between the old financial asset derecognized and the fair value of the new financial asset are recognized as gain or loss in profit or loss upon derecognition. As to the impact on ECL measurement, the expected fair value of the new financial asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes the gain or loss arising from the modification in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group recognizes its retained interest in the financial asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(h) Derecognition of Financial Liabilities

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

(i) Financial Guarantees and Undrawn Loan Commitments

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

2.6 Derivative Financial Instruments and Hedge Accounting

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

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

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

2.7 Offsetting Financial Instruments

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

2.8 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, the related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

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

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

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

The residual values, estimated useful lives, and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

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

2.9 Investment Properties

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

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

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

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

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

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in Miscellaneous Income or Miscellaneous Expense, respectively, under Other Operating Income or Other Operating Expenses, respectively, in the year of retirement or disposal.

2.10 Assets Held-for-Sale and Disposal Group

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

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

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

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

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

2.11 Intangible Assets

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

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

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

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

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

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

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

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

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

2.11 Other Resources

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

2.12 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.13 Equity

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

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

Revaluation reserves consist of:

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

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

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

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

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

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

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

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

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

2.14 Other Income and Expense Recognition

Prior to January 1, 2018, revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the expenses and costs incurred and to be incurred can be measured reliably. In 2018, revenue is recognized only when (or as) the Group satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Group's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

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

a) *Charges, Fees and Commissions*

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

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

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

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

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

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

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

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

b) Trust fees

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

c) Trading and Securities Gains (Losses)

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

d) Gains on Assets Sold

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

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

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

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

2.15 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

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

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

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

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

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

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

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

2.16 Foreign Currency Transactions and Translations

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

(a) Transactions and Balances

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

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

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

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

(b) Translation of Financial Statements of Foreign Subsidiaries

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

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

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

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

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

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

2.17 Impairment of Non-financial Assets

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

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

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

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

All assets, except for intangible assets with indefinite useful life and goodwill, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

2.18 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL Reference Rates in 2018 and as published by Philippine Dealing & Exchange Corp. (PDEx) in 2017. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and actual return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in the subsequent periods.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Interest Income or Expense account in the statement of profit or loss.

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

(b) Post-employment Defined Contribution Plan

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

(c) Short-term Benefits

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

(d) Termination Benefits

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

(e) Bonus Plans

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

(f) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.19 Borrowing Costs

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

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

2.20 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the assets and liabilities.

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

Deferred tax assets and deferred tax liabilities recognized by the entities under the Group are offset if they have a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.21 Related Party Relationships and Transactions

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

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

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

2.22 Earnings and Dilutive Earning Per Share

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

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

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

2.23 Trust and Fiduciary Activities

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

2.24 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Evaluation of Business Model Applied in Managing Financial Instruments

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

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

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

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

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with the HTC business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

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

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

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows).
If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

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

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

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

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

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

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

(e) Distinction Between Operating and Finance Leases

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

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

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

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

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

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

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

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

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

(h) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group's and the Parent Company's legal cases and are based upon the analysis of probable results.

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

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Expected Credit Loss on Financial Assets

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

Significant factors affecting the estimates on the ECL model include:

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

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

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

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

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

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

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

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

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

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

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

(d) Determination of Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant judgment is applied by management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Group's future taxable income together with its future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

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

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

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

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

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

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

(f) Determination of Fair Value of Investment Properties

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

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

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(g) Valuation of Post-employment Defined Benefits

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

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

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

A committee system is a fundamental part of the Group's process of managing risk. The following five committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the Board may entrust to it for action in between BOD meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar I of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit and Compliance Committee, which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorses transactions to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MLPP) and ensures compliance thereof. This Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of officers and staff are conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads including the President of the major subsidiary, RSB, meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT within the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires BOD approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Management Committee (AMLCom) was created through an order of the Senior Management Committee on June 24, 2002, for the evaluation of the suspicious transaction reports (STR) reported by different units before submission to the Anti-Money Laundering Council (AMLC). The AMLCom assists the BOD in implementing the Group's MLPP in order to ensure compliance with BSP rules and regulations relating to the prevention of money laundering and terrorist financing.

  The AMLCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Operational Risk Management Division, Legal Affairs Division as members, and AML Division as the Rapporteur. The AML Division, through the Chief Compliance Officer, reports to the Audit and Compliance Committee and to the AML Board Committee its monthly activities including the AMLCom meetings.

The Parent Company established a Corporate Risk Management Services (CRISMS) Group, headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

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

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

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Limited User Authority (Type 3). In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps, and interest rate swaps and futures.

4.2 Liquidity Risk

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

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

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

The gap analyses as of December 31, 2018 and 2017 are presented below.

	Group					
	2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 51,696	P 1,389	P 2,171	P 756	P 57,771	P 113,783
Investments - net	19,248	5,112	26,288	60,665	7,559	118,872
Loans and receivables - net	25,743	63,353	102,472	98,146	99,064	388,778
Other resources - net	13,497	206	400	57	9,002	23,162
Total resources	110,184	70,060	131,331	159,624	173,396	644,595
Liabilities:						
Deposit liabilities	51,950	10,390	9,920	6,119	345,020	423,399
Bills payable	7,476	42,245	5,095	1,185	-	56,001
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	12,454	41	-	-	8,454	20,949
Total liabilities	71,880	52,676	68,105	17,290	353,474	563,425
Equity	-	-	-	-	81,170	81,170
Total liabilities and equity	71,880	52,676	68,105,	17,290	434,644	644,595
On-book gap	38,304	17,384	63,226,	142,334	(261,248)	-
Cumulative on-book gap	38,304	55,688	118,914	261,248	-	-
Contingent resources	15,844	-	-	-	-	15,844
Contingent liabilities	15,960	-	-	-	-	15,960
Off-book gap	(116)	-	-	-	-	(116)
Cumulative off-book gap	(116)	(116)	(116)	(116)	(116)	
Periodic gap	**38,188**	**17,384**	**63,226**	**142,334**	**(261,248)**	**(116)**
Cumulative total gap	**P 38,188**	**P 55,572**	**P 118,798**	**P 261,132**	**(P 116)**	**P -**

	Group 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 40,867	P 691	P 1,676	P 581	P 59,366	P 103,181
Investments - net	17,506	1,969	14,818	32,915	6,141	73,349
Loans and receivables - net	33,508	62,507	105,486	83,195	69,509	354,205
Other resources - net	9,027	566	512	38	13,110	23,253
Total resources	100,908	65,733	122,492	116,729	148,126	553,988
Liabilities:						
Deposit liabilities	62,028	9,867	11,234	2,505	302,778	388,412
Bills payable	18,538	15,303	6,379	1,499	2,248	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	9,370	69	-	-	7,115	16,554
Total liabilities	89,936	25,239	45,673	13,972	312,141	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	89,936	25,239	45,673	13,972	379,168	553,988
On-book gap	10,972	40,494	76,819	102,757	(231,042)	-
Cumulative on-book gap	10,972	51,466	128,285	231,042	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	10,175	-	-	-	-	10,175
Off-book gap	(206)	-	-	-	-	(206)
Cumulative off-book gap	(206)	(206)	(206)	(206)	(206)	-
Periodic gap	10,766	40,494	76,819	102,757	(231,042)	(206)
Cumulative total gap	P 10,766	P 51,260	P 128,079	P 230,836	(P 206)	P -

	Parent Company					
	2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 39,036	P 1,230	P 1,635	P 644	P 42,469	P 85,014
Investments - net	2,095	8,739	25,680	60,792	23,604	120,910
Loans and receivables - net	28,178	47,101	46,971	81,926	85,046	289,222
Other resources - net	8,142	2	23	2	7,608	15,777
Total resources	77,451	57,072	74,309	143,364	158,727	510,923
Liabilities:						
Deposit liabilities	41,379	7,392	10,673	3,580	239,386	302,410
Bills payable	4,988	39,189	3,397	1,185	-	48,759
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	8,671	-	-	-	6,932	15,603
Total liabilities	55,038	46,581	67,160	14,751	246,318	429,848
Equity	-	-	-	-	81,075	81,075
Total liabilities and equity	55,038	46,581	67,160	14,751	327,393	510,923
On-book gap	22,413	10,491	7,149	128,613	(168,666)	-
Cumulative on-book gap	22,413	32,904	40,053	168,666	-	-
Contingent resources	15,703	-	-	-	-	15,703
Contingent liabilities	15,731	-	-	-	-	15,731
Off-book gap	(28)	-	-	-	-	(28)
Cumulative off-book gap	(28)	(28)	(28)	(28)	(28)	-
Periodic gap	**22,385**	**10,491**	**7,149**	**128,613**	**(168,666)**	**(28)**
Cumulative total gap	**P 22,385**	**P 32,876**	**P 40,025**	**P 168,638**	**(P 28)**	**P -**

	Parent Company 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 34,050	P 673	P 1,441	P 501	P 46,777	P 83,442
Investments - net	14,288	507	11,903	46,207	4,246	77,151
Loans and receivables - net	24,958	46,996	62,684	74,279	56,836	265,753
Other resources - net	5,340	346	32	12	9,500	15,230
Total resources	78,636	48,522	76,060	120,999	117,359	441,576
Liabilities:						
Deposit liabilities	49,147	4,402	10,041	2,505	222,572	288,667
Bills payable	16,009	13,906	5,185	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	5,109	-	-	-	6,243	11,352
Total liabilities	70,265	18,308	43,286	13,973	228,815	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	70,265	18,308	43,286	13,973	295,744	441,576
On-book gap	8,371	30,214	32,774	107,026	(178,385)	-
Cumulative on-book gap	8,371	38,585	71,359	178,385	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	8,371	30,214	32,774	107,026	(178,385)	-
Cumulative total gap	P 8,371	P 38,585	P 71,359	P 178,385	P -	P -

Pursuant to applicable BSP regulations, the Group is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company and RSB to maintain asset cover of 100% for foreign currency-denominated liabilities of their respective FCDUs.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. The results of these liquidity stress simulations are reported monthly to the ROC.

4.3 Market Risk

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

The market risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movements of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. While the Parent Company and RSB use VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

    – The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

– VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

– The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

– VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

– In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

– VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

- Net Interest Income (NII)-at-Risk – more specifically, in its current implementation, refers to the impact on net interest income for a 12-month horizon of adverse movements in interest rates. For this purpose, the Group employs a gap analysis to measure the interest rate sensitivity of its financial position (local and foreign currencies). As of a given reporting date, the interest rate gap analysis (see Note 4.3.2) measures mismatches between the amounts of interest-earning assets and interest-bearing liabilities re-pricing within "time buckets" going forward from the end of the reporting period. A positive gap means net asset sensitivity, which implies that an increase in the interest rates would have a positive effect on the Group's net profit. Conversely, a negative gap means net liability sensitivity, implying that an increase in the interest rates would have a negative effect on the Group's net profit. The rate movements assumed for measuring NII-at-Risk are consistent with a 99% confidence level with respect to historical rate volatility, assuming a one-year holding period. The Group considers the sum of NII-at-risk and the VaR of the FVPL and HTC portfolios as the Earnings-at-Risk (EaR) estimate.

- Capital-at-Risk (CaR) – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Group's economic value. The estimate, therefore, must consider the fair valuation effect of rate changes on non-trading positions. This includes both those positions with fair value changes against profit or loss, as well as those with fair value changes recognized directly in equity. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Group sets its CaR limit as a percentage of the equity in the statement of financial position.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group			
	At December 31	**Average**	**Maximum**	**Minimum**
2018:				
Foreign currency risk	P 34	P 38	P 72	P 13
Interest rate risk	730	190	843	47
Overall	**P 764**	**P 228**	**P 915**	**P 60**
2017:				
Foreign currency risk	P 7	P 11	P 32	P 2
Interest rate risk	363	287	501	154
Overall	P 370	P 298	P 533	P 156
2016:				
Foreign currency risk	P 15	P 10	P 28	P 3
Interest rate risk	201	232	425	166
Overall	P 216	P 242	P 453	P 169

	Parent Company			
	At December 31	**Average**	**Maximum**	**Minimum**
2018:				
Foreign currency risk	P 34	P 38	P 71	P 13
Interest rate risk	672	153	773	44
Overall	**P 706**	**P 191**	**P 844**	**P 57**
2017:				
Foreign currency risk	P 7	P 11	P 31	P 2
Interest rate risk	147	125	277	40
Overall	P 154	P 136	P 308	P 42
2016:				
Foreign currency risk	P 15	P 9	P 27	P 3
Interest rate risk	83	102	217	70
Overall	P 98	P 111	P 244	P 73

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	Philippine Pesos	Total
2018:			
Resources:			
Cash and other cash items	P 1,554	P 15,838	P 17,392
Due from BSP	-	56,495	56,495
Due from other banks	19,470	872	20,342
Loans arising from reverse repurchase agreements	-	10,032	10,032
Financial assets at FVPL	3,088	4,482	7,570
Financial assets at FVOCI	506	21,481	21,987
Investment securities at amortized cost - net	73,224	15,668	88,892
Loans and receivables - net	75,755	322,545	398,300
Other resources	66	919	985
	P 173,663	**P 448,332**	**P 621,995**
Liabilities:			
Deposit liabilities	P 86,766	P 336,633	P 423,399
Bills payable	38,671	17,330	56,001
Bonds payable	53,090	-	53,090
Subordinated debt	-	9,986	9,986
Accrued interest and other expenses	849	4,135	4,984
Other liabilities	716	11,228	11,944
	P 180,092	**P 379,312**	**P 559,404**
2017:			
Resources:			
Cash and other cash items	P 1,029	P 13,664	P 14,693
Due from BSP	-	58,801	58,801
Due from other banks	17,922	1,896	19,818
Loans arising from reverse repurchase agreements	37	9,794	9,831
Financial assets at FVPL	1,144	6,447	7,591
Financial assets at FVOCI	51	5,312	5,363
Investment securities at amortized cost - net	50,044	9,934	59,978
Loans and receivables - net	54,940	299,303	354,243
Other resources	456	243	699
	P 125,623	P 405,394	P 531,017

	Group		
	Foreign Currencies	Philippine Pesos	Total
Liabilities:			
Deposit liabilities	P 71,868	P 316,544	P 388,412
Bills payable	36,598	7,369	43,967
Bonds payable	28,060	-	28,060
Subordinated debt	-	9,968	9,968
Accrued interest and other expenses	838	3,091	3,929
Other liabilities	4,157	6,359	10,516
	P 141,521	P 343,331	P 484,852

	Parent Company		
	Foreign Currencies	**Philippine Pesos**	**Total**
2018:			
Resources:			
Cash and other cash items	P 1,300	P 10,925	P 12,225
Due from BSP	-	39,847	39,847
Due from other banks	19,009	411	19,420
Loans and receivables arising from reverse repurchase agreement	-	4,000	4,000
Financial assets at FVPL	3,000	3,690	6,690
Financial assets at FVOCI	-	15,697	15,697
Investment securities at amortized cost - net	68,961	9,634	78,595
Loans and receivables - net	75,625	223,119	298,744
Other resources	66	805	871
	P 167,961	**P 308,128**	**P 476,089**
Liabilities:			
Deposit liabilities	P 79,482	P 222,928	P 302,410
Bills payable	43,404	5,355	48,759
Bonds payable	53,090	-	53,090
Subordinated debt	-	9,986	9,986
Accrued interest and other expenses	830	2,935	3,765
Other liabilities	621	7,421	8,042
	P 177,427	**P 248,625**	**P 426,052**

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2017:			
Resources:			
Cash and other cash items	P 868	P 9,547	P 10,415
Due from BSP	-	47,186	47,186
Due from other banks	17,839	529	18,368
Loans and receivables arising from reverse repurchase agreement	-	7,435	7,435
Financial assets at FVPL	1,145	5,408	6,553
Financial assets at FVOCI	15	3,424	3,439
Investment securities at amortized cost	45,507	2,634	48,141
Loans and receivables - net	54,845	210,946	265,791
Other resources	462	109	571
	P 120,681	P 287,218	P 407,899
Liabilities:			
Deposit liabilities	P 64,400	P 224,267	P 288,667
Bills payable	36,597	3	36,600
Bonds payable	28,060		28,060
Subordinated debt	-	9,968	9,968
Accrued interest and other expenses	796	2,213	3,009
Other liabilities	6,135	533	6,668
	P 135,988	P 236,984	P 372,972

4.3.2 Interest Rate Risk

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial assets and financial liabilities. The Group follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. ALCO meets at least on a weekly basis to set rates for various assets and liabilities and trading products. ALCO employs interest rate gap analysis to measure the interest rate sensitivity of those financial instruments.

The interest rate gap analyses of financial assets and financial liabilities as of end of the reporting period based on re-pricing maturities are shown on the succeeding pages. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;

- Debt securities at amortized cost are bucketed based on their re-pricing profile;

- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,

- For financial assets and financial liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

	Group 2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 44,797	P 423	P 856	P 112	P 67,595	P 113,783
Investments - net	1,227	7,063	22,311	70,923	17,348	118,872
Loans and receivables - net	225,566	31,295	71,307	18,113	42,497	388,778
Other resources - net	208	173	400	57	22,324	23,162
Total resources	271,798	38,954	94,874	89,205	149,764	644,595
Liabilities:						
Deposit liabilities	148,687	21,665	19,122	3,576	230,349	423,399
Bills payable	39,181	3,122	10,943	2,755	-	56,001
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	1,902	152	-	-	18,895	20,949
Total liabilities	189,770	24,939	83,155	16,317	249,244	563,425
Equity	-	-	-	-	81,170	81,170
Total liabilities and equity	189,770	24,939	83,155	16,317	330,414	644,595
On-book gap	82,752	14,015	11,719	72,888	(181,374)	-
Cumulative on-book gap	82,752	96,767	108,486	181,374	-	-
Contingent resources	15,844	-	-	-	-	15,844
Contingent liabilities	15,922	-	-	-	38	15,960
Off-book gap	(78)	-	-	-	(38)	(116)
Cumulative off-book gap	(78)	(78)	(78)	(78)	(116)	-
Periodic gap	**82,674**	**14,015**	**11,719**	**72,888**	**(181,412)**	**(116)**
Cumulative total gap	**P 82,674**	**P 96,689**	**P 108,408**	**P 181,296**	**(P 116)**	**P -**

	Group 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 31,016	P 261	P 484	P 80	P 71,340	P 103,181
Investments - net	9,712	1,969	14,818	32,915	13,935	73,349
Loans and receivables - net	163,355	40,828	87,289	31,778	30,955	354,205
Other resources - net	2,657	374	239	517	19,466	23,253
Total resources	206,740	43,432	102,830	65,290	135,696	553,988
Liabilities:						
Deposit liabilities	136,523	14,161	18,040	2,505	217,183	388,412
Bills payable	32,690	1,225	5,434	1,499	3,119	43,967
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	1,006	69	-	-	15,479	16,554
Total liabilities	170,219	15,455	51,534	13,972	235,781	486,961
Equity	-	-	-	-	67,027	67,027
Total liabilities and equity	170,219	15,455	51,534	13,972	302,808	553,988
On-book gap	36,521	27,977	51,296	51,318	(167,112)	-
Cumulative on-book gap	36,521	64,498	115,794	167,112	-	-
Contingent resources	9,969	-	-	-	-	9,969
Contingent liabilities	9,977	-	-	-	198	10,175
Off-book gap	(8)	-	-		(198)	(206)
Cumulative off-book gap	(8)	(8)	(8)	(8)	(206)	-
Periodic gap	36,513	27,977	51,296	51,318	(167,310)	(206)
Cumulative total gap	P 36,513	P 64,490	P 115,786	P 167,104	(P 206)	P -

	Parent Company 2018					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 32,943	P -	P -	P -	P 52,071	P 85,014
Investments - net	993	6,730	19,322	43,826	50,039	120,910
Loans and receivables - net	217,977	15,240	2,495	15,853	37,657	289,222
Other resources - net	-	2	23	2	15,750	15,777
Total resources	251,913	21,972	21,840	59,681	155,517	510,923
Liabilities:						
Deposit liabilities	85,231	11,504	10,674	3,579	191,422	302,410
Bills payable	36,531	1,631	9,141	1,456	-	48,759
Bonds payable	-	-	53,090	-	-	53,090
Subordinated debt	-	-	-	9,986	-	9,986
Other liabilities	1,305	-	-	-	14,298	15,603
Total liabilities	123,067	13,135	72,905	15,021	205,720	429,848
Equity	-	-	-	-	81,075	81,075
Total liabilities and equity	123,067	13,135	72,905	15,021	286,795	510,923
On-book gap	128,846,	8,837	(51,065)	44,660	(131,278)	
Cumulative on-book gap	128,846	137,683	86,618	131,278	-	
Contingent resources	15,703	-	-	-	-	15,703
Contingent liabilities	15,731	-	-	-	-	15,731
Off-book gap	(28)	-	-	-	-	(28)
Cumulative off-book gap	(28)	(28)	(28)	(28)	(28)	-
Periodic gap	**128,818**	**8,837**	**(51,065)**	**44,660**	**(131,278)**	**(28)**
Cumulative total gap	**P 128,818**	**P 137,655**	**P 86,590**	**P 131,250**	**(P 28)**	**P -**

	Parent Company 2017					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 26,031	P -	P -	P -	P 57,411	P 83,442
Investments - net	9,021	506	11,903	46,207	9,514	77,151
Loans and receivables - net	157,341	27,556	29,093	29,122	22,641	265,753
Other resources - net	7	346	32	12	14,833	15,230
Total resources	192,400	28,408	41,028	75,341	104,399	441,576
Liabilities:						
Deposit liabilities	88,232	5,873	10,041	2,505	182,016	288,667
Bills payable	30,913	-	4,187	1,500	-	36,600
Bonds payable	-	-	28,060	-	-	28,060
Subordinated debt	-	-	-	9,968	-	9,968
Other liabilities	880	-	-	-	10,472	11,352
Total liabilities	120,025	5,873	42,288	13,973	192,488	374,647
Equity	-	-	-	-	66,929	66,929
Total liabilities and equity	120,025	5,873	42,288	13,973	259,417	441,576
On-book gap	72,375	22,535	(1,260)	61,368	(155,018)	-
Cumulative on-book gap	72,375	94,910	93,650	155,018	-	-
Contingent resources	9,824	-	-	-	-	9,824
Contingent liabilities	9,824	-	-	-	-	9,824
Off-book gap	-	-	-	-	-	-
Cumulative off-book gap	-	-	-	-	-	-
Periodic gap	72,375	22,535	(1,260)	61,368	(155,018)	-
Cumulative total gap	P 72,375	P 94,910	P 93,650	P 155,018	P -	P -

The table below summarizes the potential impact on the Group's and the Parent Company's annual interest income of parallel rate shifts using the repricing profile shown in the previous pages.

	Changes in Interest Rates (in basis points)			
	- 100	**- 200**	**+ 100**	**+ 200**
December 31, 2018				
Group	**(P 1,167)**	**(P 2,334)**	**P 1,167**	**P 2,334**
Parent Company	**(1,420)**	**(2,841)**	**1,420**	**2,841**
December 31, 2017				
Group	(P 586)	(P 1,172)	P 586	P 1,172
Parent Company	(831)	(1,661)	831	1,661

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVPL or financial assets at FVOCI as of December 31, 2018 and 2017 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI estimate the potential loss and determine the market and position risk requirement on equity securities at FVPL in the computation of the market and position risk requirement for all equity positions.

RCAP uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCAP uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Enterprise Risk Division of CRISMS assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line. In addition, adverse economic and market conditions that may impact a certain borrower or a group of borrowers may trigger the Group to conduct a special credit review prior to expiry of credit line.

In 2018, CMG also started identifying homogenous target market and design Credit Programs that will accelerate credit processing of accounts without sacrificing underwriting quality, and, set up enhanced data framework that would deepen the Bank's ability to identify potential problem accounts earlier.

4.4.1 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency. The Group monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 11.1.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done in the context of ROC meetings.

4.4.2 Credit Risk Assessment

The Group's credit risk assessment is performed based on the different segments of financial asset portfolio such as (a) corporate, which generally include corporate banking group loans, commercial and small-medium size segment loans, lease contract and finance receivables, and unquoted debt securities classified as loan (UDSCL), (b) retail, which include housing, auto, credit cards, and microfinance lending; and, (c) treasury, which covers credit exposures on debt securities under the Group's HTC portfolio and FVOCI. The Group also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

(a) Corporate Loans

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

The Group uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Group to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Parent Company has established a materiality threshold of P15 for all exposures classified under Stage 3. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Parent Company considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

The ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time; hence, could lead to the transfer of credit exposure in different stages of impairment. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between a risk rating of A and A- is lower than the difference in the PD between a B and B- risk rating).

In the process of applying the Group's ICRRS in determining the credit quality of loans and receivables, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Rating Scale	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions

Rating Scale	Rating Description/Criteria
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC and below*	Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses.
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.
Substandard	Have well-defined weakness(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

As part of credit risk assessment documentation and reporting, the Group includes financial instruments rated as AAA to B- under the "Pass" classification, while instruments rated CCC+ and below are grouped under the Watchlisted classification. Generally, "Pass" classification include loans and other credit accommodations that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans. These are credits that have the apparent ability and willingness to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. On the other hand, watchlisted counterparties are characterized by the following:

- those that belong to an unfavorable industry or has company-specific risk factors which represent a concern;
- the operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance;
- borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility;
- borrower incurs net losses and has salient financial weaknesses, reflected on their financial statements, specifically in profitability.

Split classification/rating may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified "loss" if there is no other source of payment other than the collateral.

In the case of syndicated loans, the Group shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with its policy. The lead financial institution or bank shall provide participating financial institutions with the credit information on the borrower upon request by the participating financial institutions and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(b) Retail Products

Credit Risk Management Division (CRMD) of RSB is, in turn, tasked to measure, control and manage credit risk on the consumer loans business of RSB through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the Credit Committee and Risk Committee, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of RSB is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

For the credit card portfolio of the Parent Company, credit risk assessment is performed through segmentation process to diversify the portfolio risk into different homogeneous populations or segments. Over-all account distribution is analyzed for three different snapshots with respect to month-on-month days past due to see consistency in the portfolio.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by the Group's CMD in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(c) Debt Securities at Amortized Cost and at FVOCI

For debt securities, the Group adopts similar credit risk ratings published by reputable external rating agency (such as S&P). These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

4.4.3 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

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

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Using the Group's ICRR, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded by at least three notches and/or downgraded to CCC+ to Especially Mentioned. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Group's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Group recognizes a lifetime ECL for all credit-impaired financial assets.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Group's ICRRS, these are exposures rated at least Substandard. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Group, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Group's definition of curing period.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g. Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

4.4.4 Definition of Default

(a) Loans and receivables

The Group defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans of RSB and one day past due for micro-finance loan portfolio of Rizal Microbank. As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Group, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Group would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Group.

(b) Investments in debt securities

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

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

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,

- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

4.4.5 Modifications of Financial Assets

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

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

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

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

4.4.6 Expected Credit Loss Measurement Inputs

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

(a) Key Inputs and Assumptions in the Expected Credit Loss Model

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

(i) Probability of default (PD) represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures which considers both quantitative and qualitative factors. In determining PD, the Group performed segmentation of its credit exposures based on homogenous characteristics [including corporate loan and retail loan (including credit-card and microfinance)] and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

(ii) Loss given default (LGD) pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Group's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

(iii) Exposure at default (EAD) represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast. For some financial assets (e.g., credit card lending), EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical technique which considers the ability of cardholders to increase its exposure from the time of ECL calculation to the time of default (i.e., credit conversion factor).

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of five years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default. Bad accounts are defaulted accounts classified into three classes such as the non-performing loans, accounts classified as Substandard, Doubtful or Loss, and real past due accounts.

In a risk rating model applied by the Group, a better rating or score denotes less probability of default than those of a worse rating. Identifying the counterparty default is done through a computation of the portfolio's observed default frequency (ODF). In cases when ODF method and the data to be used is limited, the Group may also employ the implied probability of default frequency (IPD) and the application of overlay factors in the PD. Using the historical defaults under the Group's ICRR system based on S&P scale, ODF is calculated per rating class using the cumulative five-year data as the basis for grouping. This represents the actual numbers of bad borrower cases that have occurred during the five-year timeframe. On the other hand, unrated account are distributed to existing S&P rating classes using normal distribution assumption. In cases when there is zero-percent ODF in any of the rating class, these are grouped together with the next rating class with at least one bad borrower using cumulative five-year data. If there is no rating class after certain rating, grouping shall be decided by management.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

For revolving products (such as credit cards and credit line facilities), EAD is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information discussed below.

(b) Overlay of Forward-looking Information

The Group incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Group has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for relevant portfolio of debt instruments.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g. for unemployment) or a long run average growth rate (e.g. GDP) over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Group includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Group has identified key drivers for credit risk for its corporate loans portfolio, which include among others, Gross Domestic Product (GDP) growth rate, inflation rate, interest rate (i.e., based on 91-day T-bill Yield), and foreign currency exchange rates. On the other hand, the key drivers for the Group's retail and consumer loans portfolio include unemployment rate, GDP growth rate, consumer spending growth rate, and inflation rate. Using an analysis of historical data, the Group has estimated relationships between MEVs and credit risk and credit losses.

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

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.4.7 Credit Risk Exposures

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost and debt securities at FVOCI as of December 31, 2018. Loans and receivables portfolio was summarized based on financial assets segmentation for ECL assessment purposes.

	Group		Parent Company	
	2018	2017	**2018**	2017
Corporate loans	**P 280,953**	P 260,174	**P 271,212**	P 250,784
Retail products				
Housing loans	**48,661**	42,403	**-**	-
Credit cards	**21,550**	16,405	**21,550**	16,405
Other retail products:				
Auto loans	**40,968**	36,590	**-**	-
Microfinance	**1,219**	975	**-**	-
Other receivables from customers	**5,718**	5,651	**3,501**	3,506
Total receivables from customers	**399,069**	362,198	**296,263**	270,695
Cash equivalents	**96,391**	88,488	**72,789**	73,027
Debt securities				
At amortized cost	**89,027**	60,068	**78,621**	48,141
At FVOCI	**15,526**	-	**12,021**	-
	P 600,013	P 510,754	**P 459,694**	P 391,863

Other receivables from customers include sales contract receivables, accrued interest on debt securities, and other receivables.

Cash equivalents includes loans and advances to banks (i.e., Due from BSP, Due from Other Banks, Loans under Reverse Repurchase Agreements, and Interbank Loans Receivables), see Note 9. These are held with central bank and financial institutions counterparties that are reputable and with low credit risk.

The information about the credit exposures on the above financial assets as well as on loan commitments by stages of impairment as of December 31, 2018, shown at their gross carrying amounts with the corresponding allowance for ECL are shown in the succeeding pages. All instruments, which were not assessed by the Group for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument.

The maximum exposure to credit risks for other financial assets including loan commitments is limited to their carrying values as of December 31, 2018 and 2017.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Pass					
AAA to BBB	P 8,158	P 4	P 1	P -	P 8,163
BBB- to B-	252,062	495	221	-	252,778
Watchlisted	60	3,348	7,610	-	11,018
Especially mentioned	11	343	90	-	444
Defaulted	687	316	4,074	52	5,129
Unrated	1,081	6	2,334	-	3,421
	262,059	4,512	14,330	52	280,953
Allowance for ECL	(698)	(729)	(5,036)	(36)	(6,499)
Carrying amount	**P 261,361**	**P 3,783**	**P 9,294**	**P 16**	**P 274,454**

Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC – JPL which were acquired as credit-impaired prior to 2018.

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Housing loans				
Unclassified	P 41,764	P -	P -	P 41,764
Especially mentioned	331	65	-	396
Substandard	118	5,161	1,032	6,311
Loss	-	-	190	190
	42,213	5,226	1,222	48,661
Allowance for ECL	(145)	(395)	(437)	(977)
Carrying amount	42,068	4,831	785	47,684
Credit cards				
Current	19,815	20	-	19,835
1-29 dpd	430	5	-	435
30-59 dpd	-	220	-	220
60-89 dpd	-	168	-	168
Defaulted	-	-	892	892
	20,245	413	892	21,550
Allowance for ECL	(380)	(163)	(757)	(1,300)
Carrying amount	19,865	250	135	20,250
Other products				
Unclassified	34,869	396	51	35,316
Especially mentioned	21	9	-	30
Substandard	1,730	4,300	740	6,770
Doubtful	-	-	42	42
Loss	-	-	29	29
	36,620	4,705	862	42,187
Allowance for ECL	(204)	(191)	(253)	(648)
Carrying amount	36,416	4,514	609	41,539
	P 98,349	**P 9,595**	**P 1,529**	**P 109,473**
Total gross amount	P 99,078	P 10,344	P 2,976	P 112,398
Total allowance for ECL	(729)	(749)	(1,447)	(2,925)
Total carrying amount	**P 98,349**	**P 9,595**	**P 1,529**	**P 109,473**

	Other Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 1,159	P -	P -	P 1,159
BBB- to B-	203	-	-	203
Watchlisted	-	1	-	1
Defaulted	-	211	232	443
Unrated	3,452	131	329	3,912
	4,814	343	561	5,718
Allowance for ECL	(317)	(129)	(421)	(867)
Carrying amount	**P 4,497**	**P 214**	**P 140**	**P 4,851**

b) Loans and receivables - Parent

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 8,139	P 4	P 1	P 8,144
BBB- to B-	246,540	24	221	246,785
Watchlisted	60	2,602	7,610	10,272
Especially mentioned	-	248	90	338
Defaulted	-	-	2,575	2,575
Unrated	1,903	6	1,189	3,098
	256,642	2,884	11,686	271,212
Allowance for ECL	(596)	(297)	(4,348)	(5,241)
Carrying amount	**P 256,046**	**P 2,587**	**P 7,338**	**P 265,971**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Current	P 19,815	P 20	P -	P 19,835
1-29 dpd	430	5	-	435
30-59 dpd	-	220	-	220
60-89 dpd	-	168	-	168
Defaulted	-	-	892	892
	20,245	413	892	21,550
Allowance for ECL	(380)	(163)	(757)	(1,300)
Carrying amount	**P 19,865**	**P 250**	**P 135**	**P 20,250**

	Other Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Pass				
AAA to BBB	P 1,159	P -	P -	P 1,159
BBB- to B-	197	-	-	197
Defaulted	-	211	199	410
Unrated	1,703	-	32	1,735
	3,059	211	231	3,501
Allowance for ECL	(317)	(21)	(162)	(500)
Carrying amount	**P 2,742**	**P 190**	**P 69**	**P 3,001**

c) Investments in debt securities at amortized cost and at FVOCI

	Group		Parent Company	
	HTC	**FVOCI**	**HTC**	**FVOCI**
Government securities				
AA+ to A+	P 2,058	P -	P 2,058	P -
BBB+ to BBB-	64,026	15,138	55,326	12,021
	66,084	15,138	57,384	12,021
Corporate debt securities				
AAA	1,352	-	1,352	-
AA+ to A+	2,255	-	2,255	-
A to A-	1,283	-	1,283	-
BBB+ to BBB-	12,135	5	11,967	-
BB+ to BB-	5,828	383	4,380	-
B+ and below	90	-	-	-
	22,943	388	21,237	-
Allowance for ECL	(135)	-	(26)	-
	22,808	388	21,211	-
	P 88,892	**P 15,526**	**P 78,595**	**P 12,021**

Credit exposures for debt securities not held for trading are all classified as Stage 1.

d) Loan commitments

The credit quality of the Group's and Parent Company's irrevocable loan commitments with amounts determined after considering credit conversion factor, as of December 31, 2018 follows:

	Group and Parent Company			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans				
Pass				
AAA to BBB	P 1,479	P -	P -	P 1,479
BBB- to B-	24,967	-	-	24,967
Watchlisted	-	16	-	16
Unrated	657	-	-	657
	27,103	16	-	27,119
Allowance for ECL	(10)	-	-	(10)
	27,093	16	-	27,109
Credit cards				
Current	54,153	37	-	54,190
1-29 dpd	341	7	-	348
30-59 dpd	-	71	-	71
60-89 dpd	-	45	-	45
Defaulted	-	-	241	241
	54,494	160	241	54,895
Allowance for ECL	(84)	-	-	(84)
	54,410	160	241	54,811
	P 81,503	**P 176**	**P 241**	**P 81,920**

4.4.8 Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2018.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Credit-impaired**	**Total**
Balance at beginning of year	P 757	P 1,574	P 3,484	P 46	P 5,861
Transfers:					
Stage 1 to Stage 2	(290)	290	-	-	-
Stage 1 to Stage 3	(42)	-	42	-	-
Stage 2 to Stage 1	324	(324)	-	-	-
Stage 2 to Stage 3	-	(430)	430	-	-
Stage 3 to Stage 1	1	-	(1)	-	
Stage 3 to Stage 2	-	403	(403)	-	-
Assets derecognized or repaid	(319)	(877)	(331)	-	(1,527)
New assets originated:					
Remained in Stage 1	447	-	-	-	447
Moved to Stage 2 and 3	-	188	1,801	-	1,989
Write-offs	-	-	(148)	-	(148)
Others	(180)	(95)	162	(10)	(123)
	(59)	(845)	1,552	(10)	638
Balance at end of year	**P 698**	**P 729**	**P 5,036**	**P 36**	**P 6,499**

	Retail Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing loans				
Balance at beginning of year	P 147	P 180	P 767	P 1,094
Transfers:				
Stage 1 to Stage 2	(33)	33	-	-
Stage 2 to Stage 1	327	(327)	-	-
Stage 2 to Stage 3	-	(165)	165	-
Stage 3 to Stage 2		423	(423)	-
Asset derecognized or repaid	(359)	(114)	(75)	(548)
New assets originated:				
Remained in Stage 1	63	-	-	63
Moved to Stage 2 and 3	-	365	3	368
	(2)	215	(330)	(117)
Balance at end of year	145	395	437	977

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 260	P 355	P 439	P 1,054
Transfers:				
Stage 1 to Stage 2	(9)	9	-	-
Stage 1 to Stage 3	(25)	-	25	-
Stage 2 to Stage 1	28	(28)	-	-
Stage 2 to Stage 3	-	(61)	61	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	76	-	-	76
Moved to Stage 2 and 3	-	23	33	56
Write-offs	-	-	(1,129)	(1,129)
Others	36	(177)	1,384	1,243
	120	(192)	318	246
Balance at end of year	380	163	757	1,300
Other products				
Balance at beginning of year	P 90	P 270	P 395	P 755
Transfers:				
Stage 1 to Stage 2	(55)	55	-	-
Stage 1 to Stage 3	(1)	-	1	-
Stage 2 to Stage 1	14	(14)	-	-
Stage 2 to Stage 3	-	(36)	36	-
Assets derecognized or repaid	(11)	(234)	(172)	(417)
New assets originated:				
Remained in Stage 1	167	-	-	167
Moved to Stage 2	-	156	-	156
Write-offs	-	(6)	(7)	(13)
	114	(79)	(142)	(107)
Balance at end of year	204	191	253	648
	P 729	**P 749**	**P 1,447**	**P 2,925**

b) *Loans and receivables - Parent*

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 693	P 1,203	P 2,901	P 4,797
Transfers:				
Stage 1 to Stage 2	(1)	1	-	-
Stage 1 to Stage 3	(1)	-	1	-
Stage 2 to Stage 1	13	(13)	-	-
Stage 3 to Stage 1	1	-	(1)	-
Assets derecognized or repaid	(319)	(877)	(313)	(1,509)
New assets originated:				
Remained in Stage 1	390	-	-	390
Moved to Stage 2 and 3	-	78	1,746	1,824
Write-offs	-	-	(148)	(148)
Others	(180)	(95)	162	(113)
	(97)	(906)	1,447	444
Balance at end of year	**P 596**	**P 297**	**P 4,348**	**P 5,241**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 260	P 355	P 439	P 1,054
Transfers:				
Stage 1 to Stage 2	(9)	9	-	-
Stage 1 to Stage 3	(25)	-	25	-
Stage 2 to Stage 1	28	(28)	-	-
Stage 2 to Stage 3		(61)	61	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2		42	(42)	-
New assets originated:				
Remained in Stage 1	76	-	-	76
Moved to Stage 2 and 3	-	23	33	56
Write-offs	-	-	(1,129)	(1,129)
Others	36	(177)	1,384	1,243
	120	(192)	318	246
Balance at end of year	**P 380**	**P 163**	**P 757**	**P 1,300**

c) *Investments in debt securities at amortized cost and at FVOCI*

In 2018, the Group and Parent Company has recognized ECL amounting to P45 and P15, respectively, for investments in debt securities at amortized cost, which are all in Stage 1, resulting in allowance for ECL as of December 31, 2018 amounting to P135. No ECL was recognized for debt securities at FVOCI acquired during the year.

d) *Loan commitments*

Allowance for ECL recognized both by the Group and Parent Company related to undrawn loan commitments as of December 31, 2018 amounted to P94, presented as ECL provisions on loan commitments under Other Liabilities account (see Note 22). ECL recognized in profit or loss in 2018 amounted to recovery of P13.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.4.9.

4.4.9 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below provides information how the significant changes in the gross carrying amount of financial instruments in 2018 contributed to the changes in the allowance for ECL.

a) Loans and receivables - Group

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Credit-impaired**	**Total**
Balance at beginning of year	P 241,246	P 12,298	P 6,560	P 70	P 260,174
Transfers:					
Stage 1 to Stage 2	(1,648)	1,648	-	-	-
Stage 1 to Stage 3	(123)	-	123	-	-
Stage 2 to Stage 1	1,442	(1,442)	-	-	-
Stage 2 to Stage 3	-	(745)	745	-	-
Stage 3 to Stage 1	2	-	(2)	-	-
Stage 3 to Stage 2	-	932	(932)	-	-
Assets derecognized or repaid	(109,091)	(11,114)	(989)	(18)	(121,212)
New assets originated:					
Remained in Stage 1	130,231	-	-	-	130,231
Moved to Stage 2 and 3	-	2,935	8,973	-	11,908
Write-offs	-	-	(148)	-	(148)
	20,813	(7,786)	7,770	(18)	20,779
Balance at end of year	**P 262,059**	**P 4,512**	**P 14,330**	**P 52**	**P 280,953**

	Retail Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Housing loans				
Balance at beginning of year	P 41,165	P 922	P 1,675	P 43,762
Transfers:				
Stage 1 to Stage 2	(3,283)	3,283	-	-
Stage 1 to Stage 3	-	-	-	-
Stage 2 to Stage 1	394	(394)	-	-
Stage 2 to Stage 3	-	(2,020)	2,020	-
Stage 3 to Stage 2	-	2,115	(2,115)	-
Assets derecognized or repaid	(3,636)	(908)	(364)	(4,908)
New assets originated:				
Remained in Stage 1	7,573	-	-	7,573
Moved to Stage 2 and 3	-	2,228	6	2,234
	42,213	5,226	1,222	48,661

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	15,488	478	439	16,405
Transfers:				
Stage 1 to Stage 2	(300)	300	-	-
Stage 1 to Stage 3	(490)	-	490	-
Stage 2 to Stage 1	39	(39)	-	-
Stage 2 to Stage 3	-	(83)	83	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	3,972	-	-	3,972
Moved to Stage 2 and 3	-	58	45	103
Write-offs	-	-	(1,129)	(1,129)
Others	1,522	(343)	1,020	2,199
	20,245	413	892	21,550
Other products				
Balance at beginning of year	P 32,807	P 4,137	P 625	P 37,569
Transfers:				
Stage 1 to stage 2	(350)	350	-	-
Stage 1 to stage 3	(73)	-	73	-
Stage 2 to stage 1	266	(266)	-	-
Stage 2 to stage 3	-	(388)	388	-
Stage 3 to stage 2	-	-	-	-
Assets derecognized or repaid	(999)	(1,084)	(217)	(2,300)
New assets originated:				
Remained in Stage 1	4,969	-	-	4,969
Moved to Stage 2 and 3	-	1,961	-	1,961
Write-offs	-	(5)	(7)	(12)
	36,620	4,705	862	42,187
Balance at end of year	**P 99,078**	**P 10,344**	**P 2,976**	**P 112,398**

b) Loans and receivables - Parent

	Corporate Loans			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 236,435	P 10,465	P 3,884	P 250,784
Transfers:				
Stage 1 to Stage 2	(49)	49	-	-
Stage 1 to Stage 3	(109)	-	109	-
Stage 2 to Stage 1	95	(95)	-	-
Stage 3 to Stage 1	2	-	(2)	-
Assets derecognized or repaid	(109,033)	(9,519)	(927)	(119,479)
New assets originated:				
Remained in Stage 1	129,301	-	-	129,301
Moved to Stage 2 and 3	-	1,984	8,770	10,754
Write-offs	-	-	(148)	(148)
	20,207	(7,581)	7,802	20,428
Balance at end of year	**P 256,642**	**P 2,884**	**P 11,686**	**P 271,212**

	Retail Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 15,488	P 478	P 439	P 16,405
Transfers:				
Stage 1 to Stage 2	(300)	300	-	-
Stage 1 to Stage 3	(490)	-	490	-
Stage 2 to Stage 1	39	(39)	-	-
Stage 2 to Stage 3	-	(83)	83	-
Stage 3 to Stage 1	14	-	(14)	-
Stage 3 to Stage 2	-	42	(42)	-
New assets originated:				
Remained in Stage 1	3,972	-	-	3,972
Moved to Stage 2 and 3	-	58	45	103
Write-offs	-	-	(1,129)	(1,129)
Others	1,522	(343)	1,020	2,199
	4,757	(65)	453	5,145
Balance at end of year	**P 20,245**	**P 413**	**P 892**	**P 21,550**

The Group's receivables arising from salary loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which were provided with full ECL allowance.

Allowance for ECL for other receivables increased by P411 and P296 for the Group and the Parent Company, respectively, in 2018 from the allowance for ECL recognized at the beginning of the year amounting to P456 and P204, for the Group and the Parent Company, respectively. At the Group level, the significant transaction that mainly contributed to this change pertains to the P316 increase in accounts receivables recognized by a subsidiary which were classified as Stage 3 as of December 31, 2018. On the other hand, increase in the allowance for ECL of the Parent Company is mainly attributed to a certain defaulted other receivable amounting to P120 classified as Stage 3.

c) Investment in debt securities at amortized cost and at FVOCI

	Group		Parent Company	
	HTC	FVOCI	HTC	FVOCI
Balance at beginning of year	P 60,068	P -	P 48,141	P -
Effect of adoption of PFRS 9 (see Note 2.2)	(261)	415	54	-
Assets purchased	77,488	19,828	76,286	16,364
Assets derecognized	(48,268)	(4,690)	(45,860)	(4,493)
Fair value gains	-	(27)	-	150
Balance at end of year	**P 89,027**	**P 15,526**	**P 78,621**	**P 12,021**

4.4.10 Impaired Financial Assets – Comparative Information under PAS 39

For comparative information, the table below provides the details of exposures to credit risk as of December 31, 2017, summarized based on the Group's impairment assessment methodology under PAS 39.

	Group		Parent	
	Loans and Receivables	Trading and Investment Securities	Loans and Receivables	Trading and Investment Securities
Individually Assessed for Impairment				
Especially mentioned	P 1,308	P -	P -	P -
Sub-standard	4,181	-	995	-
Doubtful	250	-	22	-
Loss	1,222	-	159	-
Gross amount	6,961	-	1,176	-
Unearned interest and discount	(46)	-	-	-
Allowance for impairment	(2,249)	-	(276)	-
Carrying amount	4,666	-	900	-
Collectively Assessed for Impairment				
Unrated	103,319	-	18,314	-
BBB+ to BBB-	21,128	-	21,128	-
BB+ to BB	40,848	-	40,848	-
BB- to BB	76,321	-	76,321	-
B to B-	105,963	-	105,480	-
CCC+ and below	581	-	581	-
Especially mentioned	105	-	105	-
Sub-standard	678	-	678	-
Doubtful	726	-	656	-
Loss	125	-	125	-
Gross amount	349,794	-	264,236	-
Unearned interest and discount	(771)	-	(332)	-
Allowance for impairment	(4,451)	-	(3,632)	-
Carrying amount	344,572	-	260,272	-
UDSCL	1,939	-	1,177	-
Other receivables	4,359	-	4,476	-
Allowance for impairment	(1,293)	-	(1,034)	-
Carrying amount	5,005	-	4,619	-
Neither Past Due Nor Impaired	-	68,879	-	54,004
Total Carrying Amount	P 354,243	P 68,879	P 265,791	P 54,004

4.4.11 Collateral Held as Security and Other Credit Enhancements

The Group holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2018 and 2017.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2018 are presented below.

	Group			
	Stage 1	Stage 2	Stage 3	Total
Real properties	P 128,714	P 19,441	P 5,656	P 153,811
Chattel	51,450	21,290	4,286	77,026
Hold-out deposits	9,175	21	620	9,816
Equity securities	6,437	-	-	6,437
Others	36,405	275	1,096	37,776
	P 232,181	**P 41,027**	**P 11,658**	**P 284,866**

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Real properties	P 92,120	P 10,891	P 3,787	P 106,798
Hold-out deposits	9,175	21	274	9,470
Equity securities	6,437	-	-	6,437
Chattel	5,398	37	-	5,435
Others	32,799	241	740	33,780
	P 145,929	**P 11,190**	**P 4,801**	**P 161,920**

The comparative information on the estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2017 based on PAS 39 credit quality description is shown below.

	Group	Parent Company
Against individually impaired		
Real property	P 1,164	P 1,164
Chattels	207	-
Against classified accounts but not impaired		
Real property	54,256	42,594
Chattels	10,959	1,434
Equity securities	5,356	5,356
Others	630	270
Against neither past due nor impaired		
Real property	95,088	76,200
Chattels	55,026	-
Hold-out deposits	15,799	14,380
Others	28,017	25,105
	P 266,502	P 166,503

The Group and Parent Company has recognized certain properties arising from foreclosures in settlement of loan account amounting to P672 and P202, respectively, in 2018 and P2,360 and P19, respectively, in 2017 (see Note 14.1).

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

There were no changes in the Group and Parent Company's collateral policies in 2018 and 2017.

4.4.12 Write-offs

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

4.4.13 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopts a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

4.5 Operational Risk

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

The Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMD applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded designated operational risk officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

- KRIs are used to monitor the operational risk profile of the Group and of each business unit, and alert management of impending problems in a timely fashion;

- Internal loss information is collected, reported, and utilized to model operational risk; and,

- The ORMD reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels, or processes may generate adverse public opinion such that it seriously affects the Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Marketing Council chaired by the head of the Parent Company's Chief Marketing Officer.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Group uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Group seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Group to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Group by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit and Compliance Committee and the BOD.

4.6 Anti-Money Laundering Controls

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

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

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

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

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

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

In 2016, the Group instituted reforms aimed to reinforce its AML/CFT controls. The Group significantly lowered the thresholds for remittances, required more posting reviews during the day, and strengthened the process for escalation, fraud and unusual transactions. In addition, the Group has embarked on a re-engineering of its settlements and business center operations, and the consolidation and strengthening of its fraud management framework.

An essential aspect in the prevention of money laundering and terrorist financing is the training of Group's personnel. In the latter part of 2016 to the first quarter of 2017, the Group conducted a one-time bank-wide AML Certification training for all its employees with the aid of an external AML expert. Annual AML trainings, classroom and e-learning, are key features of the Group's regular training program.

In addition to the Group's existing transaction monitoring system, the Group has also subscribed to an international watchlist database in 2017 to further strengthen its screening capabilities for client on-boarding and cross-border transactions.

The Group continuously improved controls over Money Laundering risks and had implemented the necessary enhancements of the on-boarding procedures, risk profiling model, transaction processing and monitoring. Corresponding trainings were provided to equip personnel with the necessary skills to perform the enhanced procedures. On July 31, 2017, the AML Board Committee was created to meet on a monthly basis and provide oversight of AML related activities of the Bank.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, RSB, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P2,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) Common Equity Tier 1 Capital includes the following:

(i) paid-up common stock;
(ii) common stock dividends distributable;
(iii) additional paid-in capital;
(iv) deposit for common stock subscription;
(v) retained earnings;
(vi) undivided profits;
(vii) other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
(viii) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

- *(i)* instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- *(ii)* financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- *(iii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iv)* additional paid-in capital resulting from issuance of AT1 capital;
- *(v)* deposit for subscription to AT1 instruments; and,
- *(vi)* minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

- *(i)* instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- *(ii)* financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- *(iii)* deposit for subscription of Tier 2 capital;
- *(iv)* appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB);
- *(v)* general loan loss provisions; and,
- *(vi)* minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based Capital Adequacy Ratio, the total Qualifying Capital is expressed as a percentage of Total Risk Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by credit risk mitigation (CRM).

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular 538.

The Group's and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as of December 31, 2018 and 2017 follows:

	Group		Parent Company	
2018:				
Tier 1 Capital				
CET 1	**P**	**67,539**	**P**	**53,512**
AT1		**3**		**3**
		67,542		**53,515**
Tier 2 Capital		**13,871**		**13,173**
Total Qualifying Capital	**P**	**81,413**	**P**	**66,688**
Total Risk – Weighted Assets	**P**	**504,657**	**P**	**404,136**
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk-weighted assets		**16.13%**		**16.50%**
Tier 1 Capital Ratio		**13.38%**		**13.24%**
Total CET 1 Ratio		**13.38%**		**13.24%**
2017:				
Tier 1 Capital				
CET 1	P	54,326	P	40,873
AT1		3		3
		54,329		40,876
Tier 2 Capital		13,115		12,456
Total Qualifying Capital	P	67,444	P	53,332
Total Risk – Weighted Assets	P	436,269	P	347,932
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk weighted assets		15.46%		15.33%
Tier 1 Capital Ratio		12.45%		11.75%
Total CET 1 Ratio		12.45%		11.75%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;
(b) The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;
(c) The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a business-as-usual (BAU) and stressed scenario;
(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,
(e) The Bank's ICAAP document must be submitted to the BSP every January 31 of each year, beginning 2011.

The Group submitted its first ICAAP trial document in January 2009. Subsequent revisions to the trial document were made, and likewise submitted in February 2010 and May 2010 following regulatory review and the Group's own process enhancements. Complementing the ICAAP document submissions were dialogues between the BSP and the Group's representatives, the second of which transpired last November 2010 between a BSP panel chaired by the Deputy Governor for Supervision and Examination, and the members of the Parent Company's EXCOM. The Group submitted its final ICAAP document within the deadline set by the BSP. Henceforth up to 2014, the annual submission of an ICAAP document is due every January 31st and every March 31st starting in 2015, as prescribed by the BSP.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the Comprehensive Concentration Index (CCI). The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

(b) *Interest Rate Risk in the Banking Book (IRRBB)* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group estimates interest rate risk in the banking book as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(c) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(d) *Information Technology Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

(e) *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For Business-as-usual scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a business-as-usual case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Public Relations Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 113,783**	**P 113,783**	P 103,181	P 103,181
Investment securities - net	**88,892**	**86,876**	59,978	56,396
Loans and receivables - net	**388,778**	**401,745**	354,205	358,354
Other resources	**985**	**985**	699	699
	592,438	**603,389**	518,063	518,630
At fair value:				
Investment securities at FVPL	**7,570**	**7,570**	7,591	7,591
Investment securities at FVOCI	**21,987**	**21,987**	5,363	5,363
	29,557	**29,557**	12,954	12,954
	P 621,995	**P 632,946**	P 531,017	P 531,584

	Group			
	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 423,399**	**P 424,437**	P 388,412	P 388,528
Bills payable	**56,001**	**56,001**	43,967	43,967
Bonds payable	**53,090**	**55,281**	28,060	29,465
Subordinated debt	**9,986**	**9,955**	9,968	10,299
Accrued interest and other expenses	**4,984**	**4,984**	3,929	3,929
Other liabilities	**11,944**	**11,944**	10,516	10,516
	559,404	**562,602**	484,852	486,704
At fair value –				
Derivative financial liabilities	**894**	**894**	483	483
	P 560,298	**P 563,496**	P 485,335	P 487,187

	Parent Company			
	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost				
Cash and cash equivalents	**P 85,014**	**P 85,014**	P 83,442	P 83,442
Investment securities - net	**78,595**	**76,228**	48,141	47,784
Loans and receivables - net	**289,222**	**299,846**	265,753	266,382
Other resources	**871**	**871**	571	571
	453,702	**461,959**	397,907	398,179
At fair value:				
Investment securities at FVPL	**6,690**	**6,690**	6,553	6,553
Investment securities at FVOCI	**15,697**	**15,697**	3,439	3,439
	22,387	**22,387**	9,992	9,992
	P 476,089	**P 484,346**	P 407,899	P 408,171
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 302,410**	**P 303,448**	P 288,667	P 288,783
Bills payable	**48,759**	**48,759**	36,600	36,600
Bonds payable	**53,090**	**55,281**	28,060	29,465
Subordinated debt	**9,986**	**9,955**	9,968	10,299
Accrued interest and other expenses	**3,765**	**3,765**	3,009	3,009
Other liabilities	**8,042**	**8,042**	6,668	6,668
	426,052	**429,250**	372,972	374,824
At fair value –				
Derivative financial liabilities	**894**	**894**	483	483
	P 426,946	**P 430,144**	P 373,455	P 375,307

Except for investment securities at amortized cost, bonds payable and subordinated debt with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Group's and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Group				
			Related amounts not set off in the statements of financial position		
	Notes	Gross amounts recognized in the statements of financial position	Financial instruments	Collateral received	Net amount
December 31, 2018					
Loans and receivables – Receivable from customers	11	**P 389,073**	**(P 9,814)**	**(P 6,437)**	**P 372,822**
Trading and investment securities – Investment securities at amortized cost	10	**118,449**	**(25,438)**	**-**	**93,011**
Other resources – Margin deposits	15	**19**	**-**	**(19)**	**-**
December 31, 2017					
Loans and receivables – Receivable from customers	11	P 352,845	(P 15,799)	(P 5,356)	P 331,690
Trading and investment securities – Investment securities at amortized cost	10	72,932	(7,437)	-	65,495
Other resources – Margin deposits	15	23	-	(23)	-

	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	Collateral received	Net amount
December 31, 2018					
Loans and receivables – Receivable from customers	11	**P 289,940**	**(P 9,470)**	**(P 6,437)**	**P 274,033**
Trading and investment securities – Investment securities at amortized cost	10	**100,982**	**(25,438)**	**-**	**75,544**
Other resources – Margin deposits	15	**19**	**-**	**(19)**	**-**
December 31, 2017					
Loans and receivables – Receivable from customers	11	P 264,631	(P 14,380)	(P 5,356)	P 244,895
Trading and investment securities – Investment securities at amortized cost	10	58,133	(7,437)	-	50,696
Other resources – Margin deposits	15	23	-	(23)	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Group				
	Notes	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial instruments	Collateral received	Net amount
December 31, 2018					
Deposit liabilities	17	**P 423,399**	**(P 9,814)**	**P -**	**P 413,585**
Bills payable	18	**56,001**	**(25,438)**	**-**	**30,563**
Other liabilities – Derivative financial liabilities	22	**894**	**-**	**(862)**	**32**
December 31, 2017					
Deposit liabilities	17	P 388,412	(P 15,799)	P -	P 372,613
Bills payable	18	43,967	(7,437)	-	36,530
Other liabilities – Derivative financial liabilities	22	483	-	(23)	460

	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	Collateral received	Net amount
December 31, 2018					
Deposit liabilities	17	**P 302,410**	**(P 9,470)**	**P -**	**P 292,940**
Bills payable	18	**48,759**	**(25,438)**	**-**	**23,321**
Other liabilities – Derivative financial liabilities	22	**894**	**-**	**(19)**	**875**
December 31, 2017					
Deposit liabilities	17	P 288,667	(P 14,380)	P -	P 274,287
Bills payable	18	36,600	(7,437)	-	29,163
Other liabilities – Derivative financial liabilities	22	483	-	(23)	460

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Group and its counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits and equity securities which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreements; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

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

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2018 and 2017.

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2018:				
Financial assets at FVPL:				
Government securities	P 3,511	P -	P -	P 3,511
Corporate debt securities	1,660	-	-	1,660
Equity securities	675	-		675
Derivative assets	-	1,724	-	1,724
	5,846	1,724	-	7,570
Financial assets at FVOCI –				
Equity securities	2,045	427	3,989	6,461
Government securities	15,138	-	-	15,138
Corporate debt securities	388	-	-	388
	17,571	427	3,989	21,987
Total Resources at Fair Value	**P 23,417**	**P 2,151**	**P 3,989**	**P 29,557**
Derivative liabilities	**P -**	**P 894**	**P -**	**P 894**
2017:				
Financial assets at FVPL:				
Government securities	P 4,386	P -	P -	P 4,386
Corporate debt securities	462	-	-	462
Equity securities	1,081	-	543	1,624
Derivative assets	29	1,090	-	1,119
	5,958	1,090	543	7,591
Financial assets at FVOCI –				
Equity securities	3,456	197	1,710	5,363
Total Resources at Fair Value	P 9,414	P 1,287	P 2,253	P 12,954
Derivative liabilities	P -	P 483	P -	P 483

	Parent Company			
	Level 1	Level 2	Level 3	Total
2018:				
Financial assets at FVPL:				
Government securities	P 3,419	P -	P -	P 3,419
Corporate debt securities	1,547	-	-	1,547
Derivative assets	-	1,724	-	1,724
	4,966	1,724	-	6,690
Financial assets at FVOCI –				
Equity securities	1,475	255	1,946	3,676
Government securities	12,021	-	-	12,021
	13,496	255	1,946	15,697
Total Resources at Fair Value	**P 18,462**	**P 1,979**	**P 1,946**	**P 22,387**
Derivative liabilities	**P -**	**P 894**	**P -**	**P 894**
2017:				
Financial assets at FVPL:				
Government securities	P 4,289	P -	P -	P 4,289
Corporate debt securities	455	-	-	455
Equity securities	147	-	543	690
Derivative assets	29	1,090	-	1,119
	4,920	1,090	543	6,553
Financial assets at FVOCI –				
Equity securities	1,761	197	1,481	3,439
Total Resources at Fair Value	P 6,681	P 1,287	P 2,024	P 9,992
Derivative liabilities	P -	P 483	P -	P 483

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

(a) Government and Corporate Debt Securities

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

In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used Bloomberg Valuation Service (BVAL). These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which had been based on price quoted or actually dealt in an active market. For other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(b) *Equity Securities*

The fair values of equity securities classified as financial assets at FVPL and FVOCI as of December 31, 2018 and 2017 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

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

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as market-based approach (price-to-book value method) using current market values of comparable listed entities, discounted cash flow method, net asset value method, or dividend discounted model.

The price-to-book value method use to value a certain equity security of the Parent Company uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value adjusted by a certain valuation discount. The price-to-book ratio used in the fair value measurement as of December 31, 2018 and 2017 ranges from 0.620:1 to 2.110:1 and from 0.578:1 to 2.290:1, respectively. Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

For a certain preferred equity security, the Group has used the discounted cash flow method applying a discount rate of 6.28% to determine the present value of future cash flows from dividends or redemption expected to be received from the instrument.

A reconciliation of the carrying amounts of Level 3 equity securities at the beginning and end of 2018 and 2017 is shown below.

	Group		
	Financial Assets at FVOCI	**Financial Assets at FVPL**	**Total**
2018:			
Balance at beginning of year	P 1,710	P 543	P 2,253
Additions	2,000	-	2,000
Reclassification	543	(543)	-
Fair value losses - net	(264)	-	(264)
Balance at end of year	**P 3,989**	**P -**	**P 3,989**
2017:			
Balance at beginning of year	P 1,744	P 586	P 2,330
Fair value losses	(34)	(43)	(77)
Balance at end of year	P 1,710	P 543	P 2,253

	Parent Company		
	Financial Assets at FVOCI	Financial Assets at FVPL	Total
2018:			
Balance at beginning of year	P 1,481	P 543	P 2,024
Reclassifications	543	(543)	-
Fair value losses - net	(78)	-	(78)
Balance at end of year	**P 1,946**	**P -**	**P 1,946**
2017:			
Balance at beginning of year	P 1,515	P 586	P 2,101
Fair value losses	(34)	(43)	(77)
Balance at end of year	P 1,481	P 543	P 2,024

As permitted by the transitional provisions under PFRS 9, the Parent Company has reclassified by designation at January 1, 2018 certain private equity securities with fair value of P543 from FVPL category as of December 31, 2017 to FVOCI [see Note 2.2(a)].

There were neither transfers between the levels of the fair value hierarchy nor gains or losses recognized in the statements of profit or loss for Level 3 financial assets in 2018 and 2017.

(c) *Derivative Assets and Liabilities*

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

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

7.3 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

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

	Group			
	Level 1	**Level 2**	**Level 3**	**Total**
2018:				
Financial Assets:				
Cash and other cash items	P 17,392	P -	P -	P 17,392
Due from BSP	56,495	-	-	56,495
Due from other banks	20,342	-	-	20,342
Loans arising from reverse repurchase agreement	10,032	-	-	10,032
Investment securities at amortized cost	86,876	-	-	86,876
Loans and receivables - net	-	-	401,745	401,745
Other resources	-	-	985	985
	P 191,137	**P -**	**P 402,730**	**P 593,867**
Financial Liabilities:				
Deposit liabilities	P -	P -	P 424,437	P 424,437
Bills payable	-	-	56,001	56,001
Bonds payable	-	55,281	-	55,281
Subordinated debt	-	9,955	-	9,955
Accrued interest and other expenses	-	-	4,984	4,984
Other liabilities	-	-	11,944	11,944
	P -	**P 65,236**	**P 497,366**	**P 562,602**
2017:				
Financial Assets:				
Cash and other cash items	P 14,693	P -	P -	P 14,693
Due from BSP	58,801	-	-	58,801
Due from other banks	19,818	-	-	19,818
Loans arising from reverse repurchase agreement	9,831	-	-	9,831
Investment securities at amortized cost	56,396	-	-	56,396
Loans and receivables - net	-	-	358,354	358,354
Other resources	-	-	699	699
	P 159,539	P -	P 359,053	P 518,592
Financial Liabilities:				
Deposit liabilities	P -	P -	P 388,528	P 388,528
Bills payable	-	-	43,967	43,967
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	10,299	-	10,299
Accrued interest and other expenses	-	-	3,929	3,929
Other liabilities	-	-	10,516	10,516
	P -	P 39,764	P 446,940	P 486,704

	Parent Company			
	Level 1	Level 2	Level 3	Total
2018:				
Financial Assets:				
Cash and other cash items	P 12,225	P -	P -	P 12,225
Due from BSP	39,847	-	-	39,847
Due from other banks	19,420	-	-	19,420
Loans arising from reverse repurchase agreement	4,000	-	-	4,000
Investment securities at amortized cost	76,228	-	-	76,228
Loans and receivables - net	-	-	299,846	299,846
Other resources	-	-	871	871
	P 151,720	**P -**	**P 300,717**	**P 452,437**
Financial Liabilities:				
Deposit liabilities	P -	P -	P 303,448	P 303,448
Bills payable	-	-	48,759	48,759
Bonds payable	-	55,281	-	55,281
Subordinated debt	-	9,955	-	9,955
Accrued interest and other expenses	-	-	3,765	3,765
Other liabilities	-	-	8,042	8,042
	P -	**P 65,236**	**P 364,014**	**P 429,250**
2017:				
Financial Assets:				
Cash and other cash items	P 10,415	P -	P -	P 10,415
Due from BSP	47,186	-	-	47,186
Due from other banks	18,368	-	-	18,368
Loans arising from reverse repurchase agreement	7,435	-	-	7,435
Investment securities at amortized cost	47,784	-	-	47,784
Loans and receivables - net	-	-	266,382	266,382
Other resources	-	-	571	571
	P 131,188	P -	P 266,953	P 398,141
Financial Liabilities:				
Deposit liabilities	P -	P -	P 288,783	P 288,783
Bills payable	-	-	36,600	36,600
Bonds payable	-	29,465	-	29,465
Subordinated debt	-	10,299	-	10,299
Accrued interest and other expenses	-	-	3,009	3,009
Other liabilities	-	-	6,668	6,668
	P -	P 39,764	P 335,060	P 374,824

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreements

Due from BSP pertains to deposits made to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreements pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Investment Securities at Amortized Cost

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg in 2018 and as published in PDEx in 2017 as discussed more fully in Note 7.2(a).

(c) Deposits Liabilities and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The Level 2 fair value of bonds payable and subordinated debt is determined based on the average of ask and bid prices as appearing on Bloomberg. For bills payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P5,298 and P4,940 in the Group's financial statements and P6,267 and P6,161 in the Parent Company's financial statements as of December 31, 2018 and 2017, respectively (see Note 14.3). The fair value hierarchy of these properties as of December 31, 2018 and 2017 is categorized as Level 3.

The fair values of the Group's and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent appraiser. Under this approach, when sales prices and/or actual sales transaction of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable and recent prices of the reference properties were adjusted for differences in key attributes such as property size, location and zoning, and accessibility, or any physical or legal restrictions on the use of the property, the fair value will be categorized as Level 3. The most significant input into this valuation approach is the price per square feet, hence, the higher the price per square feet, the higher the fair value.

(b) *Fair Value Measurement for Buildings*

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change in the valuation techniques for investment properties in both years.

8. SEGMENT INFORMATION

8.1 Business Segments

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

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

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

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

(d) *Others* – consists of other subsidiaries except for RSB, Rizal Microbank, and RBSC which are presented as part of Retail, and RLFC which is presented under Corporate.

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

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

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

There were no changes in the Group's operating segments in 2018 and 2017.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2018, 2017 and 2016 follow:

	Retail	Corporate	Treasury	Others	Total
2018:					
Revenues					
From external customers					
Interest income	P 24,744	P 22,873	P 4,711	P 126	P 52,454
Interest expense	(7,788)	(13,802)	(3,178)	(12)	(24,780)
Net interest income	16,956	9,071	1,533	114	27,674
Non-interest income	4,249	2,625	1,228	837	8,939
	21,205	11,696	2,761	951	36,613
Intersegment revenues					
Interest income	-	3,165	-	6	3,171
Non-interest income	531	-	-	-	531
	531	3,165	-	6	3,702
Total net revenues	21,736	14,861	2,761	957	40,315
Expenses					
Operating expenses excluding depreciation and amortization	13,467	2,793	625	279	17,164
Depreciation and amortization	762	416	14	4	1,196
	14,229	3,209	639	283	18,360
Segment operating income	**P 7,507**	**P 11,652**	**P 2,122**	**P 674**	**P 21,955**

	Retail	Corporate	Treasury	Others	Total
Total resources and liabilities					
Total resources	**P 149,800**	**P 272,160**	**P 109,199**	**P 5,957**	**P 537,116**
Total liabilities	**P 418,787**	**P 147,709**	**P 14,703**	**P 1,685**	**P 582,884**
2017:					
Revenues					
From external customers					
Interest income	P 19,692	P 15,162	P 3,398	P 44	P 38,296
Interest expense	(4,262)	(9,464)	(2,161)	(3)	(15,890)
Net interest income	15,430	5,698	1,237	41	22,406
Non-interest income	3,962	2,660	1,738	1,388	9,748
	19,392	8,358	2,975	1,429	32,154
Intersegment revenues					
Interest income	-	2,892	-	7	2,899
Non-interest income	499	-	-	-	499
	499	2,892	-	7	3,398
Total net revenues	19,891	11,250	2,975	1,436	35,552
Expenses					
Operating expenses excluding depreciation and amortization	12,233	2,302	551	284	15,370
Depreciation and amortization	828	425	13	5	1,271
	13,061	2,727	564	289	16,641
Segment operating income	P 6,830	P 8,523	P 2,411	P 1,147	P 18,911
Total resources and liabilities					
Total resources	P 136,979	P 266,519	P 83,728	P 5,355	P 492,581
Total liabilities	P 402,961	P 190,891	P 20,692	P 713	P 615,257
2016:					
Revenues					
From external customers					
Interest income	P 17,075	P 13,416	P 16,537	P 34	P 47,062
Interest expense	(3,199)	(7,799)	(5,976)	(3)	(16,977)
Net interest income	13,876	5,617	10,561	31	30,085
Non-interest income	3,636	1,748	1,960	1,200	8,544
	17,512	7,365	12,521	1,231	38,629
Intersegment revenues					
Interest income	-	2,235	-	4	2,239
Non-interest income	460	-	-		460
	- 460	2,235	-	4	2,699
Total net revenues	17,972	9,600	12,521	1,235	41,328

	Retail		Corporate		Treasury		Others		Total
Expenses									
Operating expenses excluding depreciation and amortization	P	11,264	P	1,965	P	546	P	749	P 14,524
Depreciation and amortization		800		359		9		7	1,175
		12,064		2,324		555		756	15,699
Segment operating income	P	5,908	P	7,276	P	11,966	P	479	P 25,629
Total resources and liabilities									
Total resources	P	122,900	P	235,070	P	98,302	P	5,048	P 461,320
Total liabilities	P	363,581	P	162,314	P	28,297	P	709	P 544,901

8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2018	2017	2016
Revenue			
Total segment revenues	**P 40,315**	P 35,552	P 41,328
Unallocated income	**(9,928)**	(6,844)	(15,620)
Elimination of intersegment revenues	**(3,893)**	(3,587)	(2,886)
Net revenues as reported in profit or loss	**P 26,494**	P 25,121	P 22,822
Profit or loss			
Total segment operating income	**P 21,955**	P 18,911	P 25,629
Unallocated profit	**(13,932)**	(11,203)	(19,186)
Elimination of intersegment profit	**(3,702)**	(3,398)	(2,700)
Group net profit as reported in profit or loss	**P 4,321**	P 4,310	P 3,743
Resources			
Total segment resources	**P 537,116**	P 492,581	P 461,320
Unallocated assets	**110,252**	63,355	62,310
Elimination of intersegment assets	**(2,773)**	(2,061)	(2,417)
Total resources	**P 644,595**	P 553,875	P 521,213
Liabilities			
Total segment liabilities	**P 582,884**	P 615,257	P 554,901
Unallocated liabilities	**(16,686)**	(126,235)	(93,423)
Elimination of intersegment liabilities	**(2,773)**	(2,061)	(2,418)
Total liabilities	**P 563,425**	P 486,961	P 459,060

8.4 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2018, 2017 and 2016 follow:

	Philippines	Asia and Europe	Total
2018:			
Statement of profit or loss			
Total income	P 36,930	P 9	P 36,939
Total expenses	32,580	38	32,618
Net profit (loss)	**P 4,350**	**(P 29)**	**P 4,321**
Statement of financial position			
Total resources	**P 644,451**	**P 144**	**P 644,595**
Total liabilities	**P 563,355**	**P 70**	**P 563,425**
Other segment information			
Depreciation and amortization	**P 1,821**	**P -**	**P 1,821**

2017:				
Statement of profit or loss				
Total income	P 32,212	P -	P 6	P 32,218
Total expenses	27,877	-	31	27,908
Net profit (loss)	P 4,335	P -	(P 25)	P 4,310
Statement of financial position				
Total resources	P 553,731	P 1	P 143	P 553,875
Total liabilities	P 486,889	P 1	P 71	P 486,961
Other segment information – Depreciation and amortization	P 1,930	P -	P -	P 1,930
2016:				
Statement of profit or loss				
Total income	P 30,225	P -	P 28	P 30,253
Total expenses	26,306	2	75	26,383
Net profit (loss)	P 3,919	(P 2)	(P 47)	P 3,870
Statement of financial position				
Total resources	P 521,018	P 1	P 174	P 521,193
Total liabilities	P 458,967	P -	P 93	P 459,060
Other segment information – Depreciation and amortization	P 1,766	P -	P -	P 1,766

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Cash and other cash items	**P 17,392**	P 14,693	**P 12,225**	P 10,415
Due from BSP	**56,495**	58,801	**39,847**	47,186
Due from other banks	**20,342**	19,818	**19,420**	18,368
Loans arising from reverse repurchase agreement	**10,032**	9,831	**4,000**	7,435
Interbank loans receivables (see Note 11)	**9,522**	38	**9,522**	38
	P 113,783	P 103,181	**P 85,014**	P 83,442

Cash consists primarily of funds in the form of Philippine currency notes and coins, and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Note 17), to serve as clearing account for interbank claims and to comply with existing trust regulations. Due from BSP also includes Overnight Deposit and Term Deposit Accounts. The balance of Overnight Deposit amounted to P8 and P2,017 for the Group as of December 31, 2018 and 2017, respectively, while the Parent Company has no such deposits at the end of both years. In addition, Term Deposit Accounts amounted to P5,000 and P200 for the Group, and nil and P200 for the Parent Company as of December 31, 2018 and 2017, respectively.

Overnight deposit bears interest of 3.0% in 2018, and 2.5% in 2017 and 2016, while term deposit account earns interest of 4.2%, 3.4%, and 3.3% in 2018, 2017 and 2016, respectively.

The balance of Due from Other Banks account represents regular deposits with the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign banks	**P 18,843**	P 17,724	**P 18,708**	P 17,284
Local banks	**1,499**	2,094	**712**	1,084
	P 20,342	P 19,818	**P 19,420**	P 18,368

The breakdown of Due from Other Banks account by currency is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign currencies	**P 19,470**	P 17,922	**P 19,009**	P 17,839
Philippine peso	**872**	1,896	**411**	529
	P 20,342	P 19,818	**P 19,420**	P 18,368

Interest rates per annum on these deposits in other banks range from 0.00% to 2.50% in 2018, from 0.00% to 1.20% in 2017, and from 0.35% to 1.00% in 2016.

The Group has loans from BSP as of December 31, 2018 and 2017 arising from overnight lending from excess liquidity which earn effective interest of 3.00% to 4.50% in 2018 and 3.50% in 2017. These loans normally mature within 30 days. Interest income earned from these financial assets is presented under Interest Income account in the statements of profit or loss.

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group		Parent Company	
	2018	2017	**2018**	2017
Financial assets at FVPL	**P 7,570**	P 7,591	**P 6,690**	P 6,553
Financial assets at FVOCI	**21,987**	5,363	**15,697**	3,439
Investment securities at amortized cost	**88,892**	59,978	**78,595**	48,141
	P 118,449	P 72,932	**P 100,982**	P 58,133

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVPL is composed of the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Government securities	**P 3,511**	P 4,386	**P 3,419**	P 4,289
Corporate debt securities	**1,660**	462	**1,547**	455
Equity securities	**675**	1,624	**-**	690
Derivative financial assets	**1,724**	1,119	**1,724**	1,119
	P 7,570	P 7,591	**P 6,690**	P 6,553

The carrying amounts of financial assets at FVPL are classified as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Held-for-trading	**P 5,171**	P 4,848	**P 4,966**	P 4,744
Designated as at FVPL	**675**	1,624	**-**	690
Derivative financial assets	**1,724**	1,119	**1,724**	1,119
	P 7,570	P 7,591	**P 6,690**	P 6,553

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVPL. There were no dividend income earned on these equity securities in 2018, 2017 and 2016.

Upon adoption of PFRS 9 at January 1, 2018, certain equity securities with carrying amount of P845 and debt securities with carrying amount of P105 were reclassified by the Group from financial assets at FVPL to FVOCI category. These include equity securities amounting to P543 reclassified by the Parent Company [(see Note 2.2(a)] and Note 10.2. Also, certain debt securities of the Parent Company with carrying amount of P51 were reclassified from FVPL to amortized cost [(see Note 2.2(a)] and Note 10.3.

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2018	2017	2016
Peso denominated	**3.25% - 8.13%**	2.13% - 8.75%	1.63% - 12.13%
Foreign currency denominated	**2.05% - 11.63%**	2.95% - 10.63%	1.30% - 11.63%

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group's and Parent Company's financial statements are shown below.

	Notional Amount	**Fair Values**	
		Assets	**Liabilities**
2018:			
Currency swaps and forwards	P 67,420	P 1,376	P 567
Interest rate swaps and futures	35,378	309	305
Debt warrants	5,531	17	-
Options	1,240	3	22
Credit default swap	946	19	-
	P 110,515	**P 1,724**	**P 894**

	Notional Amount	**Fair Values**	
		Assets	**Liabilities**
2017:			
Currency swaps and forwards	P 51,060	P 911	P 402
Interest rate swaps and futures	26,999	174	80
Debt warrants	6,250	29	-
Options	3,718	5	1
Credit default swap	25	-	-
	P 88,052	P 1,119	P 483

Derivative liabilities amounting to P894 and P483 as of December 31, 2018 and 2017, respectively, are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group's and Parent Company's financial assets at FVPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31, 2018 and 2017 consist of:

	Group				Parent Company			
		2018		2017		**2018**		2017
Quoted equity securities	**P**	**2,472**	P	3,653	**P**	**1,730**	P	1,958
Unquoted equity securities		**3,989**		1,710		**1,946**		1,481
Government debt securities		**15,138**		-		**12,021**		-
Corporate debt securities		**388**		-		-		-
	P	**21,987**	P	5,363	**P**	**15,697**	P	3,439

The Group has designated the above local equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVPL. Unquoted equity securities include golf club shares and investments in non-marketable equity securities of private companies.

The Group and the Parent Company made reclassifications of certain equity and debt securities from financial assets at FVPL to FVOCI category at January 1, 2018 [(see Note 2.2(a)] and Note 10.1. In addition, debt securities with fair value of P310 were reclassified from investment securities at amortized cost to FVOCI [(see Note 2.2(a)] and Note 10.3.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2018 and 2017 are unquoted equity securities with fair value of P3,989 and P1,710, respectively, determined using the net asset value, dividend discounted model, discounted cash flow method, or a market-based approach (price-to-book value method), hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2). These unquoted equity securities include investments of the Parent Company with fair value of P1,946 and P1,481 as of December 31, 2018 and 2017, respectively.

The fair value changes of equity securities classified as at FVOCI and held by the Group as of December 31, 2017 are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently to profit or loss (see Note 10.5). Effective January 1, 2018, the Group acquires and holds corporate debt securities under its financial assets at FVOCI category. Similar with equity securities, fair value gains or losses arising from these securities are recognized in other comprehensive income. However, gains or losses are reclassified to profit or loss upon disposal.

As a result of the Group's disposal of certain equity securities classified as at FVOCI, the related fair value gain of P4 in 2017 and P3 in 2016 recognized in other comprehensive income prior to the year of disposal was transferred from Revaluation Reserves to Surplus account during those years. There were no disposal of equity securities classified as at FVOCI in 2018.

In 2018, 2017 and 2016, dividends on these equity securities were recognized amounting to P189, P234 and P449 by the Group and, P187, P196 and P307 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31, 2018 and 2017 consist of:

	Group		Parent Company	
	2018	2017	**2018**	2017
Government securities	**P 66,084**	P 39,044	**P 57,384**	P 29,379
Corporate debt securities	**22,943**	21,024	**21,237**	18,762
	89,027	60,068	**78,621**	48,141
Allowance for impairment	**(135)**	(90)	**(26)**	-
	P 88,892	P 59,978	**P 78,595**	P 48,141

The breakdown of these investment securities at amortized cost by currency is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Philippine peso	**P 15,668**	P 9,934	**P 9,634**	P 2,634
Foreign currencies	**73,224**	50,044	**68,961**	45,507
	P 88,892	P 59,978	**P 78,595**	P 48,141

Interest rates per annum on government securities and corporate debt securities range from 3.63% to 8.00% in 2018, 2.13% to 8.60% in 2017 and 2.13% to 8.44% in 2016 for peso denominated securities, and 1.63% to 10.63% in 2018, 1.63% to 10.63% in 2017 and 1.40% to 10.63% in 2016 for foreign currency-denominated securities.

Upon adoption of PFRS 9 at January 1, 2018, certain debt securities of the Parent Company with carrying amount of P51 were reclassified from financial assets at FVPL to amortized cost [(see Note 2.2(a)] and Note 10.1. In addition, debt securities with fair value of P310 were reclassified from investment securities at amortized cost to FVOCI [(see Note 2.2(a)] and Note 10.2.

In December 2018, the Parent Company disposed of certain US dollar-denominated bonds under its HTC portfolio with aggregate carrying amount of P3,113, resulting in net gains amounting to P69. The disposal was made in order to maintain adequate liquidity buffer for the expected cash outflows for loan drawdowns. In 2017, the Parent Company also disposed from its HTC portfolio certain peso and US dollar-denominated bonds with aggregate carrying amount of P22,279 which resulted in net gains of P684. The disposal was made to ensure the Parent Company's continuing regulatory compliance with the required minimum CET 1 ratio.

Management had assessed that the disposals of the investment securities under the HTC portfolio during those periods are consistent with the Group's HTC business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Group's business model in managing financial assets manual and the requirements of PFRS 9 and BSP Circular 708.

The above disposals of investment securities were approved by the Executive Committee of the Parent Company in compliance with the documentation requirements of the BSP.

The Group and the Parent Company recognized ECL on investment securities at amortized cost amounting to P24 and P15, respectively, in 2018 (see Note 16).

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

As of December 31, 2018 and 2017, investment securities of both the Group and the Parent Company with an aggregate amortized cost of P25,438 and P7,437, respectively, were pledged as collaterals for bills payable under repurchase agreements (see Note 18).

10.4 Interest Income from Trading and Investment Securities

Interest income from trading and investment securities recognized by the Group and Parent Company in 2018, 2017 and 2016 are shown below.

	Group		
	2018	2017	2016
Debt securities at FVPL	**P 441**	P 293	P 938
Debt securities at FVOCI	**136**	-	-
Debt securities at amortized cost	**2,826**	2,137	2,331
	P 3,403	P 2,430	P 3,269

	Parent Company		
	2018	2017	2016
Debt securities at FVPL	**P 338**	P 203	P 931
Debt securities at FVOCI	**113**	-	-
Debt securities at amortized cost	**2,359**	1,752	1,996
	P 2,810	P 1,955	P 2,927

10.5 Trading and Securities Gains (Losses)

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2018, 2017, and 2016 as follows:

	Group		
	2018	2017	2016
Profit or loss:			
Financial assets at FVPL	**(P 117)**	P 195	P 267
Debt securities at FVOCI	**48**	-	-
Investment securities at amortized cost	**69**	705	1,352
	P -	P 900	P 1,619
Other comprehensive income (loss):			
Equity securities at FVOCI	**(P 1,018)**	(P 156)	P 1,442
Debt securities at FVOCI	**149**	-	-
	(P 869)	(P 156)	P 1,442

	Parent Company		
	2018	2017	2016
Profit or loss:			
Financial assets at FVPL	**(P 134)**	(P 20)	P 136
Debt securities at FVOCI	**48**		
Investment securities at amortized cost	**69**	684	1,527
	(P 17)	**P** 664	P 1,663
Other comprehensive income (loss):			
Equity securities at FVOCI	**(P 478)**	(P 269)	P 1,395
Debt securities at FVOCI	**149**	-	-
	(P 329)	(P 269)	P 1,395

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1):

	Group		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Loans and discounts	**P 340,011**	P 319,099	**P 244,420**	P 233,549
Credit card receivables	**21,550**	16,405	**21,550**	16,405
Customers' liabilities on acceptances, import bills and trust receipts	**21,075**	12,404	**21,075**	12,404
Bills purchased	**3,112**	2,612	**3,055**	2,605
Lease contract receivables	**3,403**	2,893	**-**	-
Receivables financed	**587**	249	**-**	-
	389,738	353,662	**290,100**	264,963
Unearned discount	**(665)**	(817)	**(160)**	(332)
	389,073	352,845	**289,940**	264,631
Other receivables:				
Interbank loans receivables (see Note 9)	**9,522**	38	**9,522**	38
Accrued interest receivables	**4,498**	3,094	**3,537**	2,232
Accounts receivables [see Notes 15.3 and 28.5 (a) and (b)]	**2,452**	2,641	**1,565**	2,206
UDSCL	**1,963**	1,939	**1,162**	1,177
Sales contract receivables	**1,083**	1,679	**59**	449
	19,518	9,391	**15,845**	6,102
	408,591	362,236	**305,785**	270,733
Allowance for impairment (see Note 16)	**(10,291)**	(7,993)	**(7,041)**	(4,942)
	P 398,300	P 354,243	**P 298,744**	P 265,791

Receivables from customers' portfolio earn average annual interest or range of interest as follows:

	2018	2017	2016
Loans and discounts:			
Philippine peso	**5.79%**	5.00%	5.08%
Foreign currencies	**4.53%**	3.63%	3.50%
Credit card receivables	**16.00% - 24.00%**	17.00% - 27.00%	19.00% - 29.00%
Lease contract receivables	**8.00% - 19.00%**	8.00% - 20.00%	8.00% - 20.00%
Receivables financed	**8.00% - 14.00%**	11.00% - 12.50%	10.00% - 12.00%

Included in UDSCL as of December 31, 2018 and 2017 is a 10-year note from Philippine Asset Growth One, Inc. (PAGO) with a face amount of P731, which is part of the consideration received in relation to the Parent Company's disposal in February 2013 of its non-performing assets (NPAs), consisting of non-performing loans (NPLs) with a carrying amount of P507 and non-performing investment properties with a carrying amount of P1,236. This note receivable carries a variable interest rate of 1.0% per annum during the first five years, 7.0% per annum in the sixth to seventh year, and 7.5% per annum in the last three years. This note receivable was initially recognized in 2013 at fair value resulting in the recognition of day-one loss of P181 which is included as part of allowance for ECL. This note receivable with carrying amount of P342 as of December 31, 2017 has been provided with full allowance for ECL as part of the Parent Company's transition adjustment to increase its allowance for ECL on specific loans upon adoption of the ECL model at January 1, 2018.

Also included in UDSCL is RSB's 10-year note with carrying amount of P801 and P761 as of December 31, 2018 and 2017, respectively, and bears 6.44% interest per annum. This pertains to the agreement entered into in June 2017 with a third party for the sale of various foreclosed real properties with book value of P1,127, for a total consideration of P1,385; of which P396 and P989 (with present value of P742 on date of sale) were in the form of cash and note receivable, respectively. Accordingly, the Group recognized a gain on sale amounting to P11 and is presented as part of Gains on assets sold under Miscellaneous income in the 2017 statement of profit or loss (see Notes 15.3 and 25.1).

Also included in Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2018 and 2017, the outstanding balance amounted to P182 and P192, respectively. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 28). Management has assessed that this receivable is fully recoverable.

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

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

	Group		Parent Company	
	2018	2017	**2018**	2017
Real estate, renting and other related activities	**P 85,759**	P 81,927	**P 53,100**	P 52,669
Electricity, gas and water	**74,686**	64,794	**74,379**	64,453
Consumer	**64,085**	54,196	**23,282**	18,055
Wholesale and retail trade	**45,153**	40,500	**39,669**	35,692
Manufacturing (various industries)	**44,600**	35,034	**43,355**	33,504
Financial intermediaries	**24,262**	21,521	**22,207**	19,534
Transportation and communication	**22,869**	22,918	**16,077**	17,162
Other community, social and personal activities	**10,545**	14,799	**5,956**	10,755
Agriculture, fishing and forestry	**4,559**	4,928	**4,003**	4,479
Hotels and restaurants	**3,981**	4,133	**3,937**	4,133
Mining and quarrying	**1,456**	1,922	**1,285**	1,779
Others	**7,118**	6,173	**2,690**	2,416
	P 389,073	P 352,845	**P 289,940**	P 264,631

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

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

	Group		Parent Company	
	2018	2017	**2018**	2017
Secured:				
Real estate mortgage	**P 113,299**	P 86,193	**P 63,582**	P 42,326
Chattel mortgage	**44,271**	37,975	**1,699**	623
Hold-out deposits	**9,814**	15,799	**9,470**	14,380
Other securities	**18,733**	26,718	**15,149**	25,375
	186,117	166,685	**89,900**	82,704
Unsecured	**202,956**	186,160	**200,040**	181,927
	P 389,073	P 352,845	**P 289,940**	P 264,631

The maturity profile of the receivables from customers' portfolio follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Due within one year	**P 79,185**	P 92,550	**P 75,279**	P 71,992
Due beyond one year	**309,888**	260,295	**214,661**	192,639
	P 389,073	P 352,845	**P 289,940**	P 264,631

11.2 Non-performing Loans and Allowance for Credit Loss

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31, 2018 and 2017 are presented below, net of allowance for impairment in compliance with the BSP Circular No. 772, *Amendments to Regulations on Non-performing Loans.*

	Group		Parent Company	
	2018	2017	**2018**	2017
Gross NPLs	**P 9,173**	P 7,907	**P 3,779**	P 2,851
Allowance for impairment	**(4,857)**	(3,416)	**(2,274)**	(1,394)
	P 4,316	P 4,491	**P 1,505**	P 1,457

Based on BSP regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan receivable shall be considered as non-performing when the total amount of arrearages reaches 10% of the total loan receivable balance.

Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

A reconciliation of the allowance for impairment on loans and receivables at the beginning and end of 2018 and 2017 is shown below (see Note 16).

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 7,993**	P 7,411	**P 4,942**	P 4,792
Effect of adoption of ECL model [see Note 2.2(a)]	**1,680**	-	**1,959**	-
Impairment losses during the year	**1,879**	2,076	**1,294**	1,086
Accounts written off and others	**(1,261)**	(1,494)	**(1,154)**	(936)
Balance at end of year	**P 10,291**	P 7,993	**P 7,041**	P 4,942

12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

	Notes	Group 2018	Group 2017
Acquisition costs of associates:			
HCPI		**P 91**	P 91
LIPC		**57**	57
YCS		**4**	4
		152	152
Accumulated equity in net earnings:			
Balance at beginning of year		**265**	231
Share in net earnings for the year		**14**	92
Share in actuarial gains on defined benefit plan	23.4	**6**	4
Cash dividends	28	**(2)**	(62)
Others		**(12)**	-
Balance at end of year		**271**	265
Carrying amount		**P 423**	P 417

	Parent Company 2018	Parent Company 2017
Acquisition costs of subsidiaries:		
RSB	**P 3,190**	P 3,190
RCBC Capital	**2,231**	2,231
Rizal Microbank	**1,242**	1,242
RCBC LFC	**1,187**	1,187
RCBC JPL	**375**	375
RCBC Forex	**150**	150
RCBC Telemoney	**72**	72
RCBC IFL	**58**	58
RCBC North America	**-**	134
Total acquisition costs *(carried forward)*	**P 8,505**	P 8,639

	Notes	Parent Company 2018	Parent Company 2017
Total acquisition costs *(carried forward)*		**P 8,505**	P 8,639
Accumulated equity in net earnings:			
Balance at beginning of year		**9,562**	7,817
Share in the effect of adoption of PFRS 9	2.2	**143**	-
Share in net earnings for the year		**1,290**	1,960
Share in actuarial gains on defined benefit plan	23.4	**115**	19
Share in fair value gains (losses) on financial assets at FVOCI	23.4	**(540)**	113
Translation adjustment on foreign operations	23.4	**-**	(1)
Cash dividends	28	**-**	(315)
Others		**123**	(31)
Balance at end of year		**10,693**	9,562
		19,198	18,201
Acquisition costs of associates:			
NPHI		**388**	388
HCPI		**91**	91
LIPC		**57**	57
YCS		**4**	4
		540	540
Accumulated equity in net earnings:			
Balance at beginning of year		**277**	182
Share in net earnings for the year		**9**	150
Share in actuarial gains on defined benefit plan	23.4	**6**	4
Cash dividends	28	**(102)**	(59)
Balance at end of year		**190**	277
		730	817
Carrying amount		**P 19,928**	P 19,018

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company received dividends from its subsidiaries and associates amounting to nil and P102, respectively, in 2018, P315 and P59, respectively, in 2017, and P232 and P110, respectively, in 2016.

12.1 Information About Investments in Subsidiaries

In February 2018, RCBC North America was dissolved which resulted in the reclassification of the cumulative translation adjustment to profit or loss amounting to P32 (see Note 1.2).

In August 2018, the BOD of the Parent Company approved the additional capital infusion to RCBC LFC amounting to P800, which was paid to the latter in November 2018 after RCBC LFC's BOD approved the increase in its authorized capital stock in its meeting held in October 2018. As the application for the increase in authorized capital stock is not yet filed by RCBC LFC to the SEC as of December 31, 2018, the P800 deposit for future stock subscription is recognized and presented as part of Other Resources account in the 2018 statement of financial position of the Parent Company (see Note 15).

On February 23, 2015, the Parent Company's BOD approved the subscription to P500 worth of shares of stock of RCBC LFC. In 2016, RCBC LFC filed its application with the SEC for increase in authorized capital stock after it has secured the certificate of authority to amend the articles of incorporation from the BSP. This application was approved by the SEC on April 24, 2018 which resulted in the issuance of shares to the Parent Company, hence, increase in the latter's ownership interest (see Note 1.2).

12.2 Information About Investments in Associates

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The table below presents the summary of the financial information of the Group's significant associates as of and for the years ended December 31:

		Resources		Liabilities		Revenues		Net Profit (Loss)
2018:								
HCPI	**P**	**6,910**	**P**	**3,717**	**P**	**27,664**	**P**	**35**
LIPCO		**993**		**5,236**		**23**	**(**	**482)**
2017:								
HCPI	P	6,110	P	2,965	P	25,215	P	589
LIPCO		982		4,743		27	(	341)

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2018					
Cost	P 1,270	P 3,400	P 11,032	P 1,102	P 16,804
Accumulated depreciation and amortization	-	(1,400)	(6,989)	-	(8,389)
Net carrying amount	**P 1,270**	**P 2,000**	**P 4,043**	**P 1,102**	**P 8,415**
December 31, 2017					
Cost	P 1,283	P 3,368	P 9,684	P 1,167	P 15,502
Accumulated depreciation and amortization	-	(1,318)	(5,238)	-	(6,556)
Net carrying amount	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946
January 1, 2017					
Cost	P 1,289	P 3,315	P 9,858	P 1,100	P 15,562
Accumulated depreciation and amortization	-	(1,226)	(5,460)	-	(6,686)
Net carrying amount	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
December 31, 2018					
Cost	P 771	P 2,421	P 6,447	P 867	P 10,506
Accumulated depreciation and amortization	-	(1,078)	(4,436)	-	(5,514)
Net carrying amount	**P 771**	**P 1,343**	**P 2,011**	**P 867**	**P 4,992**
December 31, 2017					
Cost	P 771	P 2,419	P 6,196	P 890	P 10,276
Accumulated depreciation and amortization	-	(1,000)	(4,079)	-	(5,079)
Net carrying amount	P 771	P 1,419	P 2,117	P 890	P 5,197
January 1, 2017					
Cost	P 777	P 2,381	P 5,882	P 815	P 9,855
Accumulated depreciation and amortization	-	(932)	(3,731)	-	(4,663)
Net carrying amount	P 777	P 1,449	P 2,151	P 815	P 5,192

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 is shown below.

	Group				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946
Additions	-	47	877	290	1,214
Disposals	(13)	(12)	(275)	(31)	(331)
Reclassifications	-	2	(131)	129	-
Depreciation and amortization charges for the year	-	(87)	(874)	(453)	(1,414)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 1,270**	**P 2,000**	**P 4,043**	**P 1,102**	**P 8,415**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 1,289	P 2,089	P 4,398	P 1,100	P 8,876
Additions	-	47	779	695	1,521
Disposals	(6)	(8)	(81)	(24)	(119)
Depreciation and amortization charges for the year	-	(78)	(650)	(604)	(1,332)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 1,283	P 2,050	P 4,446	P 1,167	P 8,946

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 771	P 1,419	P 2,117	P 890	P 5,197
Additions	-	34	606	196	836
Disposals	-	(4)	(191)	(29)	(224)
Depreciation and amortization charges for the year	-	(106)	(521)	(190)	(817)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 771**	**P 1,343**	**P 2,011**	**P 867**	**P 4,992**

	Parent Company				
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 777	P 1,449	P 2,151	P 815	P 5,192
Additions	-	40	576	283	899
Disposals	(6)	(2)	(75)	(18)	(101)
Depreciation and amortization charges for the year	-	(68)	(535)	(190)	(793)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 771	P 1,419	P 2,117	P 890	P 5,197

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2018 and 2017, the Parent Company and its bank subsidiaries have satisfactorily complied with this BSP requirement.

The cost of the Group's and the Parent Company's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P5,136 and P4,357, respectively, as of December 31, 2018 and P3,789 and P3,638, respectively, as of December 31, 2017.

14. INVESTMENT PROPERTIES

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

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2018 and 2017 are shown below.

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2018						
Cost	P 1,566	P 2,659	P 4,225	P 644	P 2,544	P 3,188
Accumulated depreciation	-	(502)	(502)	-	(260)	(260)
Accumulated impairment (see Note 16)	(92)	-	(92)	-	(6)	(6)
Net carrying amount	**P 1,474**	**P 2,157**	**P 3,631**	**P 644**	**P 2,278**	**P 2,922**
December 31, 2017						
Cost	P 2,472	P 1,534	P 4,006	P 995	P 2,005	P 3,000
Accumulated depreciation	-	(549)	(549)	-	(215)	(215)
Accumulated impairment (see Note 16)	(58)	-	(58)	-	-	-
Net carrying amount	P 2,414	P 985	P 3,399	P 995	P 1,790	P 2,785

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
January 1, 2017						
Cost	P 1,389	P 2,492	P 3,881	P 1,000	P 2,019	P 3,019
Accumulated depreciation	-	(618)	(618)	-	(203)	(203)
Accumulated impairment (see Note 16)	(34)	-	(34)	-	-	-
Net carrying amount	P 1,355	P 1,874	P 3,229	P 1,000	P 1,816	P 2,816

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at January 1, net of accumulated depreciation and impairment	**P 3,399**	P 3,229	**P 2,785**	P 2,816
Additions	**672**	2,360	**202**	19
Disposals	**(382)**	(1,822)	**(17)**	(7)
Reclassification	**39**	-	**-**	-
Depreciation charges for the year	**(97)**	(289)	**(48)**	(43)
Impairment losses	**-**	(79)	**-**	-
Balance at December 31, net of accumulated depreciation and impairment	**P 3,631**	P 3,399	**P 2,922**	P 2,785

As of December 31, 2018 and 2017, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling P672 and P202, respectively, in 2018, and P2,360 and P19, respectively, in 2017 in settlement of certain loan accounts.

In September 2014, the Parent Company sold to a third party buyer a certain non-performing investment properties consisting of land and building with a total carrying amount of P774 for a total consideration of P740, consisting of P35 cash as down payment, P40 accounts receivable and P665 sales contract receivable with no interest and payable in staggered amount for a period of four years (see Note 11). The sales contract receivable was initially recognized at its fair value resulting in the recognition of a day-one loss amounting to P5 which is included as part of allowance for impairment. These receivables with outstanding balance of P365 as of December 31, 2017 were fully collected in 2018.

The total gain recognized by the Group and the Parent Company from disposals of investment properties both amounted to P26 in 2018, P159 and P33, respectively, in 2017, and loss of P421 and P12, respectively, in 2016, which is presented as part of Gains on assets sold – net under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P414 both in 2018, P416 and P400, respectively, in 2017, and P414 and P399, respectively, in 2016 and are presented as part of Rentals under Miscellaneous Income account in the statement of profit or loss [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P54 and P32, respectively, in 2018, P41 and P15, respectively, in 2017, P62 and P54, respectively, in 2016.

14.3 Valuation and Measurement of Investment Properties

The fair value of investment properties as of December 31, 2018 and 2017, based on the available appraisal reports, amounted to P5,298 and P4,940, respectively, for the Group; and, P6,267 and P6,161, respectively, for the Parent Company (see Note 7.4).

15. OTHER RESOURCES

Other resources consist of the following:

		Group		Parent Company	
	Notes	**2018**	2017	**2018**	2017
Creditable withholding taxes		**P 2,362**	P 2,110	**P 2,197**	P 1,976
Branch licenses	15.1	**1,000**	1,000	**1,000**	1,000
Software	15.2	**945**	977	**786**	874
Assets held-for-sale and disposal group	15.3	**931**	1,594	**268**	862
Refundable and other deposits		**736**	491	**646**	392
Prepaid expenses	15.4	**717**	538	**464**	274
Goodwill	15.5	**426**	426	**-**	-
Unused stationery and supplies		**298**	288	**251**	229
Returned checks and other cash items		**171**	87	**158**	69
Deferred charges		**121**	132	**118**	129
Foreign currency notes		**59**	98	**48**	87
Margin deposits	15.6	**19**	23	**19**	23
Deposit for future stock subscription	12.1	**-**	-	**800**	-
Inter-office float items		**-**	81	**13**	107
Miscellaneous	15.7	**1,465**	1,358	**131**	286
		9,250	9,203	**6,899**	6,308
Allowance for impairment	15.5, 16	**(228)**	(191)	**-**	(2)
		P 9,022	P 9,012	**P 6,899**	P 6,306

The expected recovery of the other resources follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 6,404**	P 6,334	**P 4,731**	P 4,070
More than one year	**2,618**	2,678	**2,168**	2,236
	P 9,022	P 9,012	**P 6,899**	P 6,306

15.1 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2018 and 2017 is shown below.

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 1,035**	P 960	**P 874**	P 850
Additions	**179**	304	**163**	267
Amortization	**(269)**	(287)	**(251)**	(243)
Balance at end of year	**P 945**	P 977	**P 786**	P 874

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Assets Held-for-Sale and Disposal Group

Assets held-for-sale represents real and other properties that are approved by management to be immediately sold. These mainly include real properties, automobiles and equipment foreclosed by the Parent Company, RSB and RCBC LFC in settlement of loans.

In 2015, RSB classified a portion of investment properties amounting to P1,351 as assets held-for-sale since the carrying amount of those properties will be recovered principally through a sale transaction. The properties were readily available for immediate sale in its present condition and that management believes that the sale was highly probable at the time of reclassification. In June 2017, the properties were sold to a third party with total consideration of P1,385; of which P396 and P989 (present value is P742) were in the form of cash and note receivable, respectively (see Note 11).

In 2013, the Parent Company entered into a joint venture agreement with a third party developer to develop certain investment properties for the purpose of recovering the cost through eventual sale which led to the reclassification of the properties amounting to P337 as assets held-for-sale. This joint arrangement is accounted for as a jointly controlled operation as there was no separate entity created under this joint venture agreement. The joint venture agreement stipulates that the Parent Company shall contribute parcels of land and the co-venturer shall be responsible for the planning, conceptualization, design, construction, financing and marketing of units to be constructed on the properties.

In 2017, the joint venture agreement was terminated and both parties entered into a contract of sale, with the joint venturer property developer purchasing the properties contributed by the Parent Company at a consideration of P551 resulting in a gain from sale of P198, which is recognized as part of Gains on assets sold – net under Miscellaneous Income account in the 2017 statement of profit or loss (see Note 25.1). The outstanding receivables related to this transaction as of December 31, 2017 amounted to P463 and is presented as part of Accounts receivables under Loans and Receivables account in the 2017 statement of financial position (see Note 11).

In 2009, in accordance with the letter received by RSB from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements.

The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of the BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013:

(a) Goldpath
(b) Eight Hills
(c) Crescent Park
(d) Niceview
(e) Lifeway
(f) Gold Place
(g) Princeway
(h) Greatwings
(i) Top Place
(j) Crestview
(k) Best Value

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares was approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.6).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. As the Group is in the process of liquidating the operations of those SPCs, which is expected to be completed in the near future, the carrying amounts of the real properties of those SPCs subject for liquidation are accounted for under PFRS 5; hence, classified as assets held-for-sale.

15.4 Prepaid Expenses

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance.

15.5 Goodwill

The goodwill recognized by the Group as of December 31, 2018 and 2017 pertains to the following:

RSB	P	268
Rizal Microbank		158
		426
Allowance for impairment	(	158)
	P	268

RSB recognized goodwill arising from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of RSB.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2018 and 2017, RSB engaged a third party consultant to perform an independent impairment testing of goodwill. On the basis of the report of the third party consultant dated January 16, 2019 and January 28, 2018 with valuation date as of the end of 2018 and 2017, respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank was fully provided with impairment in 2011.

15.6 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.7 Miscellaneous

Miscellaneous account includes various deposits, advance rentals, service provider fund and other assets.

16. ALLOWANCE FOR EXPECTED CREDIT LOSS AND IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized below.

		Group		Parent Company	
	Notes	**2018**	2017	**2018**	2017
Balance at beginning of year					
Loans and receivables	11	**P 7,903**	P 7,321	**P 4,942**	P 4,792
Investment securities at amortized cost	10.3	**90**	90	**-**	-
Investment properties	14	**58**	34	**-**	-
Other resources	15	**191**	288	**2**	1
		8,242	7,733	**4,944**	4,793
Effect of adoption of the ECL model	2.2				
Loans and receivables		**1,680**	-	**1,959**	-
Investment securities at amortized cost		**21**	-	**10**	-
		1,701	-	**1,969**	-
Impairment losses (recovery):					
Loans and receivables	11	**1,879**	2,076	**1,295**	1,086
Investment securities at at amortized cost	10.3	**24**	-	**15**	-
Loan commitments	4.4.8(d)	**(13)**	-	**(13)**	-
Investment properties	14	**-**	79	**-**	-
Other resources	15	**9**	-	**9**	78
		1,899	2,155	**1,306**	1,164
Charge-offs and other adjustments during the year		**(1,087)**	(1,646)	**(1,146)**	(1,013)
Balance at end of year					
Loans and receivables	11	**10,291**	7,903	**7,041**	4,942
Investment securities at at amortized cost	10.3	**135**	90	**26**	-
Investment properties	14	**92**	58	**6**	-
Other resources	15	**237**	191	**-**	2
		P 10,755	P 8,242	**P 7,073**	P 4,944

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group		Parent Company	
	2018	2017	**2018**	2017
Demand	**P 56,413**	P 51,996	**P 43,650**	P 40,857
Savings	**174,107**	165,187	**147,771**	141,160
Time	**179,724**	161,727	**97,834**	97,148
Long-term Negotiable Certificate of Deposits (LTNCD)	**13,155**	9,502	**13,155**	9,502
	P 423,399	P 388,412	**P 302,410**	P 288,667

The Parent Company's LTNCDs as of December 31, 2018 and 2017 are as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance 2018	Outstanding Balance 2017
September 28, 2018	March 28, 2024	5.50%	**P 3,580**	P -
August 11, 2017	February 11, 2023	3.75%	**2,502**	2,502
December 19, 2014	June 19, 2020	4.13%	**2,100**	2,100
November 14, 2013	May 14, 2019	3.25%	**2,860**	2,860
November 14, 2013	May 14, 2019	0.00%	**2,113**	2,040
			P 13,155	P 9,502

The Parent Company's LTNCDs were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes. As of December 31, 2018 and 2017, unamortized debt issue cost amounted to P27 and P20, respectively. Amortization of debt issue cost of P1 in 2018, P3 in 2017 and P2 in 2016, is recorded as part of Interest expenses in the statements of profit or loss.

The maturity profile of the deposit liabilities follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 62,340**	P 71,895	**P 48,771**	P 53,549
One year to more than five years	**16,039**	13,739	**14,253**	12,546
Non-maturing	**345,020**	302,778	**239,386**	222,572
	P 423,399	P 388,412	**P 302,410**	P 288,667

Deposit liabilities, aside from LTNCDs, bear annual interest rates ranging from 0.11% to 3.28% in 2018, 0.10% to 1.84% in 2017, and 0.13% to 1.38% in 2016. The total interest expense incurred by the Group and the Parent Company on deposit liabilities amounted to P6,295 and P3,723, respectively, in 2018, P3,959 and P2,389, respectively, in 2017, and P3,269 and P2,021, respectively, in 2016.

Under existing BSP regulations, non-FCDU deposit liabilities, including tax exempt LTNCDs, of the Parent Company is subject to reserve requirement equivalent to 20% from May 30, 2014 to March 1, 2018, 19% from March 2, 2018 to May 31, 2018, and 18% from June 1, 2018 and thereafter, while RSB and Rizal Microbank are subject to reserve requirement equivalent to 8% both in 2018 and 2017. Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent to 4% in 2018 and 6% in 2017. As of December 31, 2018 and 2017, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 753, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P51,409 and P55,386 for the Group and P39,770 and P46,986 for the Parent Company as of December 31, 2018 and 2017, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2018	2017	**2018**	2017
Foreign banks	**P 40,613**	P 33,102	**P 40,613**	P 33,102
Local banks	**15,386**	10,862	**8,144**	3,495
Others	**2**	3	**2**	3
	P 56,001	P 43,967	**P 48,759**	P 36,600

The maturity profile of bills payable follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Within one year	**P 49,721**	P 33,841	**P 44,177**	P 29,915
Beyond one year but within five years	**5,095**	6,379	**3,397**	5,185
More than five years	**1,185**	3,747	**1,185**	1,500
	P 56,001	P 43,967	**P 48,759**	P 36,600

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

	2018	2017	2016
Group			
Peso denominated	**1.05% - 8.25%**	1.06% - 4.50%	0.88% - 2.98%
Foreign currency denominated	**1.05% - 4.50%**	1.06% - 3.46%	0.10% - 2.86%
Parent Company			
Foreign currency denominated	**1.05% - 4.50%**	1.06% - 3.46%	0.10% - 2.86%

The total interest expense incurred by the Group on the bills payable amounted to P1,541 in 2018, P891 in 2017, and P931 in 2016.

As of December 31, 2018 and 2017, certain bills payable availed under repurchase agreements are secured by the Group's and Parent Company's investment securities (see Note 10.3).

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2018	Outstanding Balance 2017
March 15, 2018	March 16, 2023	4.13%	$ 450	**P 23,560**	P -
November 2, 2015	February 2, 2021	3.45%	320	**16,826**	15,977
January 21, 2015	January 22, 2020	4.25%	243	**12,704**	12,083
			$ 1,013	**P 53,090**	P 28,060

In March 2018, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$450 bearing an interest of 4.13% per annum, payable semi-annually in arrears every March 16 and September 16 of each year. The Senior Notes, unless redeemed, will mature on March 16, 2023. As of December 31, 2018, the peso equivalent of this outstanding bond issue amounted to P23,560.

In November 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The Senior Notes, unless redeemed, will mature on February 2, 2021. As of December 31, 2018 and 2017, the peso equivalent of this outstanding bond issue amounted to P16,826 and P15,977, respectively.

In January 2015, the Parent Company issued unsecured US$ denominated Senior Notes with principal amount of US$243 bearing an interest of 4.25% per annum, payable semi-annually in arrears every January 21 and July 21 of each year, which commenced on July 21, 2015. The Senior Notes, unless redeemed, will mature on January 22, 2020. As of December 31, 2018 and 2017, the peso equivalent of this outstanding bond issue amounted to P12,704 and P12,083, respectively.

The interest expense incurred on these bonds payable amounted to P1,911 in 2018, P1,155 in 2017, and P1,715 in 2016. The Group and Parent Company recognized foreign currency exchange losses related to these bonds payable amounting to P1,489 in 2018, P118 in 2017, and P516 in 2016, which are netted against Foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

20. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7,000 Tier 2 Notes.

The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10,000, are as follows:

(a) The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

(b) Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

(c) The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

(d) Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

(e) The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

(i) it shall reduce the claim on the notes in liquidation;
(ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
(iii) partially or fully reduce the interest payments on the notes.

The total interest expense incurred by the Group and Parent Company on the notes amounted to P555 in 2018, P554 in 2017, and P553 in 2016.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Accrued expenses	**P 2,916**	P 2,809	**P 2,329**	P 2,171
Accrued interest	**2,068**	1,120	**1,436**	838
Taxes payable	**293**	256	**201**	209
	P 5,277	P 4,185	**P 3,966**	P 3,218

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable, bonds payable and subordinated debt at the end of each reporting period.

These obligations are expected to be settled within one year after the reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

	Notes	Group				Parent Company			
			2018		2017		**2018**		2017
Accounts payable	28.5(a), 28.5(c)	**P**	**6,291**	P	6,451	**P**	**3,590**	P	3,735
Bills purchased – contra			**1,847**		1,079		**1,791**		1,074
Manager's checks			**1,545**		1,575		**919**		835
Post-employment defined benefit obligation	24.2		**1,481**		111		**1,420**		33
Derivative financial liabilities	10.1		**894**		483		**894**		483
Outstanding acceptances payable			**880**		405		**880**		405
Deposit on lease contracts			**471**		342		**122**		105
Payment orders payable			**432**		193		**418**		181
Other credits			**392**		370		**241**		232
Unearned income			**380**		296		**347**		273
Withholding taxes payable			**304**		243		**218**		143
Sundry credits			**125**		121		**117**		96
Advance rentals			**106**		92		**106**		92
ECL provisions on loan commitments	4.4.8(d)		**94**		-		**94**		-
Guaranty deposits			**57**		62		**57**		62
Due to BSP			**29**		39		**24**		39
Miscellaneous			**344**		507		**399**		346
		P	**15,672**	P	12,369	**P**	**11,637**	P	8,134

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

Miscellaneous liabilities include unclaimed balances for deposits and other miscellaneous liabilities.

The maturity profile of other liabilities follows:

	Group				Parent Company			
		2018		2017		**2018**		2017
Within one year	**P**	**13,271**	P	11,484	**P**	**9,797**	P	7,702
More than one year		**2,401**		885		**1,840**		432
	P	**15,672**	P	12,369	**P**	**11,637**	P	8,134

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock of the Parent Company are as follows:

	Number of Shares		
	2018	2017	2016
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Issued and outstanding:			
Balance at beginning of year	**276,845**	293,987	310,145
Conversion of shares during the year	**(8,958)**	(17,142)	(16,158)
Balance at end of year	**267,887**	276,845	293,987
Common stock – P10 par value			
Authorized:			
Balance at beginning of year	**1,400,000,000**	1,400,000,000	1,400,000,000
Increase during the year	**1,200,000,000**	-	-
Balance at end of year	**2,600,000,000**	1,400,000,000	1,400,000,000
Issued and outstanding:			
Balance at beginning of year	**1,399,916,364**	1,399,912,464	1,399,908,746
Issuance of shares during the year	**535,710,378**	-	-
Conversion of shares during the year	**2,033**	3,900	3,718
Balance at end of year	**1,935,628,775**	1,399,916,364	1,399,912,464

As of December 31, 2018 and 2017, there are 756 and 758 holders, respectively, of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P28.50 per share and P55.35 per share as of December 31, 2018 and 2017, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay	April 2015	124,242,272
Stock rights offering	Various	July 2018	535,710,378

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE. Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate (LIBOR) plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Issuance of Common Shares, Purchase and Reissuance of Treasury Shares

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common stock from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) to be subscribed out of the increase in the authorized capital. The increase in authorized capital stock and the Rights Offer were approved by the BSP and SEC on June 29, 2018 and July 4, 2018, respectively. The offering of the stock rights representing 535,710,378 common shares (with equivalent amount of P5,357) occurred from June 25 to June 29, 2018 and the shares were listed at the PSE on July 16, 2018 (see Note 28). The Rights Offer and issuance generated P15,000 proceeds, reduced by P217 issue costs; hence, resulting in P9,426 excess of consideration received over par value recognized in Capital Paid in Excess of Par account in the 2018 consolidated statement of changes in equity.

In 2015, the Parent Company issued common shares to Cathay at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iv) entering into a shareholders agreement with PMMIC and the Parent Company.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

Also, on September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

23.3 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD	Date Approved by BSP	Date Paid/Payable
January 25, 2016	P 0.6495	P 0.02	March 21, 2016	January 25, 2016	*	March 23, 2016
April 25, 2016	0.0660	0.02	June 21, 2016	April 25, 2016	June 16, 2016	June 21, 2016
April 25, 2016	0.7200	1,007.94	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
April 25, 2016	0.7200	0.21	June 30, 2016	April 25, 2016	June 16, 2016	July 18, 2016
July 25, 2016	0.0676	0.02	September 21, 2016	July 25, 2016	September 16, 2016	October 11, 2016
November 2, 2016	0.0724	0.02	December 21, 2016	November 2, 2016	January 13, 2017	January 17, 2017
January 30, 2017	0.0749	0.02	March 21, 2017	January 30, 2017	March 22, 2017	March 24, 2017
April 24, 2017	0.0807	0.02	June 21, 2017	April 24, 2017	April 26, 2017	June 23, 2017
April 24, 2017	0.5520	772.75	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
April 24, 2017	0.5520	0.15	April 27, 2017	April 24, 2017	April 26, 2017	May 25, 2017
July 31, 2017	0.0840	0.02	September 21, 2017	July 31, 2017	September 5, 2017	September 22, 2017
October 30, 2017	0.0840	0.02	December 21, 2017	October 30, 2017	December 12, 2017	December 22, 2017
January 29, 2018	0.0919	0.02	March 21, 2018	January 29, 2018	March 1, 2018	March 28, 2018
March 26, 2018	0.0616	862.35	June 21, 2018	March 26, 2018	April 5, 2018	May 7, 2018
March 26, 2018	0.0616	0.17	April 27, 2018	March 26, 2018	April 5, 2018	May 7, 2018
April 30, 2018	0.1080	0.03	April 27, 2018	April 30, 2018	June 14, 2018	June 25, 2018
July 30, 2018	0.1108	0.03	September 21, 2018	July 30, 2018	September 4, 2018	September 24, 2018
November 26, 2018	0.0111	0.03	December 21, 2018	November 26, 2018	*	December 28, 2018

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

In 2015, the BSP, through the Monetary Board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totalling P10,883 and P9,839 as of December 31, 2018 and 2017, respectively, is not currently available for distribution as dividends.

23.4 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity of the Group and Parent Company at their aggregate amount under Revaluation Reserves account are shown below.

	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2018				
As previously reported	P 1,968	P 85	(P 79)	P 1,974
Effect of adoption of PFRS 9 (see Note 2.2)	456	-	-	456
As restated	2,424	85	(79)	2,430
Actuarial losses on defined benefit plan			(1,263)	(1,263)
Fair value loss on financial assets at FVOCI	(869)	-	-	(869)
Reversal of cumulative translation adjustment on dissolution of a foreign subsidiary	-	(32)	-	(32)
Other comprehensive loss	(869)	(32)	(1,263)	(2,164)
Balance as of December 31, 2018	**P 1,555**	**P 53**	**(P 1,342)**	**P 266**
Balance as of January 1, 2017	P 2,128	P 86	(P 1,593)	P 621
Fair value losses on financial assets at FVOCI	(156)	-	-	(156)
Actuarial gains on defined benefit plan	-	-	1,514	1,514
Translation adjustments on foreign operation	-	(1)	-	(1)
Other comprehensive income (loss)	(156)	(1)	1,514	1,357
Transfer from fair value gains on financial asset at FVOCI to Surplus	(4)	-	-	(4)
Balance as of December 31, 2017	P 1,968	P 85	(P 79)	P 1,974
Balance at January 1, 2016	P 689	P 61	(P 1,268)	(P 518)
Actuarial losses on defined benefit plan	-	-	(325)	(325)
Fair value gains on financial assets at FVOCI	1,442	-	-	1,442
Translation adjustments on foreign operation	-	25	-	25
Other comprehensive income (loss)	1,442	25	(325)	1,142
Transfer from fair value gains on financial asset at FVOCI to Surplus	(3)	-	-	(3)
Balance as of December 31, 2016	P 2,128	P 86	(P 1,593)	P 621

23.5 Appropriation for General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Group shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Group's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2018 include appropriation recognized at January 1, 2018 upon adoption of the ECL model under PFRS 9 amounting to P2,227 and P1,793 (see Note 2.2) for the Group and Parent Company, respectively, and the additional appropriation made in 2018 amounting to P367 and P319 for the Group and Parent Company, respectively.

23.6 Other Reserves

On December 23, 2013, the SPCs' BOD approved the redemption of the SPCs' respective preferred shares for a total consideration of P1,555. As a result thereof, the Group incurred a redemption loss amounting to P185 and is presented as part of Other Reserves account in the 2013 statement of financial position. On May 30, 2014 and on October 16, 2014, the BOD and SEC approved the execution of the retirement of the preferred shares resulting from the SPC's redemption on December 31, 2014. Consequently, the amount of the redemption loss of P185 previously recognized in the 2013 consolidated statement of changes in equity of the Group, as part Other Reserves account, was transferred directly to Surplus (see Note 15.3).

As of December 31, 2018, this account consists of reserves arising from the acquisition of RCBC LFC and Rizal Microbank for a total of P97.

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group		
	2018	2017	2016
Short-term employee benefits	**P 6,034**	P 5,617	P 5,039
Post-employment defined benefits	**528**	374	369
	P 6,562	P 5,991	P 5,408

	Parent Company		
	2018	2017	2016
Short-term employee benefits	**P 4,138**	P 3,857	P 3,386
Post-employment defined benefits	**334**	307	280
	P 4,472	P 4,164	P 3,666

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's and RSB's Trust Departments, covering all regular full-time employees. The Parent Company's and RSB's Trust Departments manage the fund in coordination with the Parent Company's Retirement Committee, Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to 1.25 to 2 months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2018 and 2017.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
Present value of the obligation	**P 4,800**	P 4,995	**P 3,880**	P 4,126
Fair value of plan assets	**(3,321)**	(4,891)	**(2,460)**	(4,100)
Effect of asset ceiling test	**2**	7	**-**	7
Deficiency of plan assets	**P 1,481**	P 111	**P 1,420**	P 33

The Group's and Parent Company's post-employment defined benefit obligation as of December 31, 2018 and 2017 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2018	2017	**2018**	2017
Balance at beginning of year	**P 4,995**	P 4,953	**P 4,126**	P 4,156
Current service cost	**528**	374	**334**	307
Interest expense	**303**	274	**248**	230
Remeasurements – actuarial losses (gains) arising from changes in:				
– financial assumptions	**(848)**	(230)	**(636)**	(206)
– experience adjustments	**216**	(113)	**155**	(125)
– demographic assumptions	**(9)**	-	**-**	-
Benefits paid by the plan	**(385)**	(263)	**(347)**	(236)
Balance at end of year	**P 4,800**	P 4,995	**P 3,880**	P 4,126

The movements in the fair value of plan assets are presented below.

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Balance at beginning of year	**P 4,891**	P 3,218	**P 4,100**	P 2,599
Interest income	**292**	186	**245**	149
Return (loss) on plan assets (excluding amounts included in net interest)	**(1,908)**	1,174	**(1,865)**	1,167
Contributions paid into the plan	**431**	576	**327**	421
Benefits paid by the plan	**(385)**	(263)	**(347)**	(236)
Balance at end of year	**P 3,321**	P 4,891	**P 2,460**	P 4,100

The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Cash and cash equivalents	**P 473**	P 402	**P 343**	P 311
Debt securities:				
Corporate debt securities	**86**	299	**-**	-
Government bonds	**407**	127	**4**	4
Equity securities:				
Financial intermediaries	**1,778**	3,354	**1,609**	3,124
Transportation and communication	**166**	208	**158**	208
Electricity, gas and water	**100**	170	**97**	169
Diversified holding companies	**46**	26	**20**	22
Others	**24**	22	**1**	1
Unquoted long-term equity investments	**140**	169	**140**	169
UITF	**93**	107	**80**	85
Investment properties	**6**	6	**6**	6
Loans and receivables	**2**	1	**2**	1
	P 3,321	P 4,891	**P 2,460**	P 4,100

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The returns on plan assets are as follows:

	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Fair value gains (losses)	**(P 1,908)**	P 1,174	**(P 1,865)**	**P** 1,167
Interest income	**292**	186	**245**	149
Actual returns	**(P 1,616)**	P 1,360	**(P 1,620)**	P 1,316

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

	Group		
	2018	2017	2016
Reported in profit or loss:			
Current service cost	**P 528**	P 374	P 369
Net interest expense	**11**	88	62
	P 539	P 462	P 431
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
– Financial assumptions	**P 848**	P 230	P 73
– Experience adjustments	**(216)**	113	(2)
– Demographic assumptions	**9**	-	6
Effect of asset ceiling test	**(2)**	(7)	-
Return (loss)on plan assets (excluding amounts included in net interest)	**(1,908)**	1,174	(402)
	(P 1,269)	P 1,510	(P 325)

	Parent Company		
	2018	2017	2016
Reported in profit or loss:			
Current service costs	**P 334**	P 307	P 280
Net interest expense	**3**	81	60
	P 337	P 388	P 340
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
– Financial assumptions	**P 636**	P 206	P 63
– Experience adjustments	**(155)**	125	(18)
Effect of asset ceiling	**-**	(7)	-
Return (loss) on plan assets (excluding amounts included in net interest)	**(1,865)**	1,167	(394)
	(P 1,384)	P 1,491	(P 349)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense – Bills Payable and Other Borrowings or Interest Income Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2018	2017	2016
Group			
Discount rates	**7.00% - 7.53%**	5.48% - 6.00%	5.00% - 5.60%
Expected rate of salary increases	**4.00% - 10.50%**	4.00% - 8.00%	3.00% - 11.00%
Parent Company			
Discount rates	**7.52%**	6.00%	5.53%
Expected rate of salary increases	**5.00%**	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back six years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2018 and 2017:

	Group		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2018:			
Discount rate	**+/-1 %**	**(P 97)**	**P 465**
Salary growth rate	**+/-1 %**	**478**	**(421)**
2017:			
Discount rate	+/- 1%	(P 323)	P 403
Salary growth rate	+/- 1%	480	(388)

	Parent Company		
	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2018:			
Discount rate	**+/- 1%**	**(P 34)**	**P 397**
Salary growth rate	**+/- 1%**	**404**	**(355)**
2017:			
Discount rate	+/- 1%	(P 391)	P 456
Salary growth rate	+/- 1%	413	(363)

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2018 and 2017 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P1,481 and P1,420 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2018.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		**Parent Company**	
	2018	2017	**2018**	2017
Less than one year	**P 161**	P 226	**P 28**	P 44
More than one year to five years	**1,457**	1,319	**1,002**	1,094
More than five years to ten years	**3,581**	2,425	**2,995**	1,984
	P 5,199	P 3,970	**P 4,025**	P 3,122

The Group and Parent Company expects to contribute P436 and P336, respectively, to the plan in 2019.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	Group 2018		Group 2017		Group 2016	
Rentals	14.2	**P**	**765**	P	741	P	614
Dividend income	10.2		**189**		234		449
Recoveries from written off assets			**206**		187		161
Gains on assets sold – net	11,14.1, 15.3		**96**		441		120
Others			**292**		290		254
		P	**1,548**	P	1,893	P	1,598

	Notes	Parent Company 2018		Parent Company 2017		Parent Company 2016	
Rentals	14.2, 28.5(a)	**P**	**454**	P	419	P	407
Dividend income	10.2		**187**		196		307
Recoveries from written off assets			**143**		146		127
Gains on assets sold – net	14.1, 15.3		**28**		232		12
Others			**143**		136		231
		P	**955**	P	1,129	P	1,084

Miscellaneous income classified as Others includes rebates, penalty charges and other income items that cannot be appropriately classified under any of the foregoing income accounts.

25.2 Miscellaneous Expenses

	Note	Group 2018		Group 2017		Group 2016	
Insurance		**P**	**946**	P	759	P	738
Credit card-related expenses			**894**		907		663
Communication and information services			**488**		447		450
Management and other professional fees			**454**		368		408
Transportation and travel			**294**		217		206
Advertising and publicity			**237**		323		276
Litigation/assets acquired expenses			**228**		166		385
Banking fees			**227**		193		194
Service and processing fees			**223**		155		78
Stationery and office supplies			**172**		149		132
Other outside services			**139**		130		126
Donation and charitable contribution			**53**		51		38
Representation and entertainment			**43**		22		45
Membership fees			**24**		19		21
Others	29.6		**903**		998		1,710
		P	**5,325**	P	4,904	P	5,470

	Notes	Parent Company 2018	2017	2016
Credit card-related expenses		**P 1,482**	P 1,443	P 663
Insurance	28.5(c)	**596**	564	594
Communication and information services		**370**	328	281
Management and other professional fees		**233**	188	217
Service and processing fees		**223**	137	501
Transportation and travel		**223**	110	93
Advertising and publicity		**186**	244	206
Banking fees		**171**	148	144
Other outside services		**113**	115	113
Stationery and office supplies		**108**	92	86
Litigation/assets acquired expense		**100**	50	181
Donations and charitable contributions		**52**	51	35
Representation and entertainment		**32**	22	13
Membership fees		**22**	19	18
Others	29.6	**599**	572	1,411
		P 4,510	P 4,083	P 4,556

The Group's other expenses are composed of freight, various processing fees, fines and penalties, and seasonal giveaways. The Group and Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P103 and P78, P101 and P67, and P77 and P52 in 2018, 2017 and 2016 respectively (see Note 28).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2018, 2017 and 2016, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2018	2017	2016
Current tax expense:			
RCIT	**P 664**	P 711	P 414
Final tax	**403**	203	177
Excess MCIT over RCIT	**3**	2	190
	1,070	916	781
Application of MCIT	**-**	(356)	-
	1,070	560	781
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(198)**	281	(955)
	P 872	P 841	(P 174)

	Parent Company		
	2018	2017	2016
Current tax expense:			
RCIT	**P 522**	P 563	P 140
Final tax	**313**	147	173
Excess MCIT over RCIT	**-**	-	190
	835	710	503
Application of MCIT	**-**	(356)	-
	835	354	503
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(22)**	343	(842)
	P 813	P 697	(P 339)

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

	Group		
	2018	2017	2016
Tax on pretax profit at 30%	**P 1,558**	P 1,545	P 1,109
Adjustments for income subjected to lower income tax rates	**(496)**	(434)	(180)
Tax effects of:			
Non-taxable income	**(1,239)**	(786)	(845)
Non-deductible expenses	**1,059**	595	520
Recognition of previously unrecognized deferred tax asset	**123**	-	(865)
Utilization of MCIT	**-**	356	-
FCDU income	**(182)**	(306)	(388)
Unrecognized temporary differences	**46**	(130)	97
Utilization of NOLCO	**-**	1	374
Others	**3**	-	4
	P 872	P 841	(P 174)

	Parent Company		
	2018	2017	2016
Tax on pretax profit at 30%	**P 1,540**	P 1,502	P 1,059
Adjustments for income subjected to lower income tax rates	**(431)**	(384)	(118)
Tax effects of:			
Non-taxable income	**(1,113)**	(899)	(889)
Non-deductible expenses	**1,030**	531	420
FCDU income	**(169)**	(275)	(388)
Unrecognized temporary differences	**(44)**	(134)	-
Recognition of previously unrecognized deferred tax asset	**-**	-	(797)
Utilization of MCIT	**-**	356	-
Utilization of NOLCO	**-**	-	374
	P 813	P 697	(P 339)

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2018 and 2017 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2018	2017	**2018**	2017	2016
Allowance for impairment	**P 1,646**	P 1,610	**P 36**	(P 9)	P 867
Provision for credit card reward payments	**156**	127	**29**	22	105
Excess MCIT	**59**	60	**(1)**	(296)	356
Post-employment benefit obligation	**136**	52	**84**	(8)	39
Deferred rent – PAS 17	**38**	30	**8**	13	16
NOLCO	**3**	-	**3**	-	(443)
Others	**56**	17	**39**	(3)	15
Deferred tax assets	**P 2,094**	P 1,896			
Deferred tax income (expense) – net			**P 198**	(P 281)	P 955

In 2016, the Parent Company utilized a portion of its NOLCO available at that year amounting to P1,246.

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2018 and 2017 is shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2018	2017	**2018**	2017	2016
Allowance for impairment	**P 713**	P 720	**(P 7)**	(P 60)	P 780
Provision for credit card reward payments	**156**	127	**29**	22	105
Post-employment benefit obligation	**43**	52	**(9)**	34	18
Deferred rent – PAS 17	**38**	30	**8**	13	17
Excess MCIT	**-**	-	**-**	(356)	356
NOLCO	**-**	-	**-**	-	(443)
Others	**14**	13	**1**	4	9
Deferred tax assets	**P 964**	P 942			
Deferred tax income (expense) – net			**P 22**	(P 343)	P 842

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2018	2017	**2018**	2017
Allowance for impairment	**P 1,441**	P 925	**P 1,399**	P 763
Excess MCIT	**4**	60	**-**	-
NOLCO	**4**	51	**-**	-
Post-employment benefit obligation	**-**	24	**-**	-
Advance rental	**-**	1	**-**	-
	P 1,449	P 1,061	**P 1,399**	P 763

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The details of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below.

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2018	P 11	P -	P -	P 11	2021
2017	5	-	-	5	2020
2016	8	-	-	8	2019
2015	159	37	122	-	
	P 183	**P 37**	**P 122**	**P 24**	

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2018	P 59	P -	P -	P 59	2021
2017	52	50	-	2	2020
2016	2	-	-	2	2019
2015	1	-	1	-	
	P 114	**P 50**	**P 1**	**P 63**	

The MCIT applied by the Group in 2017 solely pertains to the MCIT of the Parent Company as it has generated net taxable income and is liable for RCIT for that year.

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 on November 25, 2010 which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P87,619 and P91,585 as of December 31, 2018 and 2017, respectively. The Parent Company's total trust resources amounted to P58,041 and P64,395 as of December 31, 2018 and 2017, respectively (see Note 29.1).

Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 10.3) with a total face value of P955 and P606 for the Group and the Parent Company, respectively, as of December 31, 2018, and P913 and P604 for the Group and the Parent Company, respectively, as of December 31, 2017 are deposited with the BSP as security for faithful compliance with fiduciary obligations.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2018, 2017 and 2016 is presented below.

		Group					
		2018		2017		2016	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	(P 55)	P 261	(P 55)	P 316	(P 55)	P 371
Deposit liabilities	28.2	(423)	57	(751)	480	(1,785)	1,231
Interest expense on deposits	28.2	2	-	5	-	6	-
Cash received from issuance of shares of stock	23.2	14,783	-	-	-	-	-
Interest income from loans and receivables	28.1	17	-	16	-	21	-
Associates							
Deposit liabilities	28.2	(142)	135	266	277	(53)	11
Interest expense on deposits	28.2	6	-	3	-	5	-
Dividend	12	2	-	62	-	124	-
Related Parties Under Common Ownership							
Loans and receivables	28.2	344	358	14	14	(541)	-
Deposit liabilities	28.2	856	3,707	2,695	2,851	(2,124)	156
Interest expense on deposits	28.2	37	-	9	-	15	-
Occupancy and equipment related expenses	28.5(a)	790	-	715	-	926	-
Miscellaneous expenses – others	25.2	103	-	101	-	77	-
Interest income from loans and receivables	28.1	2	-	-	-	19	-

		Group					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**(P 198)**	**P 13**	P 210	P 211	(P 1)	P 1
Deposit liabilities	28.2	**(192)**	**94**	43	286	(67)	243
Interest income from loans and receivables	28.1	**1**	**-**	2	-	-	-
Interest expense on deposits	28.1	**1**	**-**	3	-	1	-
Salaries and employee benefits	28.5(d)	**637**	**-**	458	-	376	-
Other Related Interests							
Loans and receivables	28.1	**(6,953)**	**3,153**	5,565	10,106	(2,855)	4,541
Deposit liabilities	28.2	**(1,232)**	**1,062**	2,179	2,294	(361)	115
Interest income from loans and receivables	28.1	**182**	**-**	560	-	567	-
Interest expense on deposits	28.2	**26**	**-**	16	-	3	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 261**	(P 55)	P 316	(P 55)	P 371
Deposit liabilities	28.2	**(423)**	**57**	(751)	480	(1,785)	1,231
Interest expense on deposits	28.2	**2**	**-**	5	-	6	-
Cash received from issuance of shares of stock	23.2	**14,783**	**-**	-	-	-	-
Interest income from loans and receivables	28.1	**17**	**-**	16	-	21	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries							
Loans and receivable	28.1	**P 999**	**P 999**	(P 222)	P -	P -	P 222
Deposit liabilities	28.2	**(79)**	**364**	(2,155)	443	553	2,598
Interest income from loans and receivable	28.1	**7**	**-**	-	-	-	-
Interest expense on deposits	28.2	**6**	**-**	6	-	5	-
Dividend	12	**-**	**-**	315	-	232	-
Rental income	28.5(a) 28.5(b)	**200**	**-**	191	-	186	-
Occupancy and equipment-related expenses	28.5(a)	**352**	**-**	13	-	186	-
Service and processing fees	28.5(c)	**531**	**49**	499	54	460	29
Sale of investment securities	28.3	**35**	**-**	175	-	810	-
Purchase of investment securities	28.3	**3**	**-**	5	-	601	-
Assignment of receivables	11	**(10)**	**182**	(10)	192	(20)	202
Associates							
Deposit liabilities	28.2	**(142)**	**23**	(154)	165	(53)	11
Interest expense on deposits	28.2	**6**	**-**	3	-	5	-
Dividend	12	**102**	**-**	59	-	124	-
Related Parties Under Common Ownership							
Loans and receivables	28.1	**(142)**	**3,128**	3,270	3,270	(541)	-
Deposit liabilities	28.2	**382**	**3,122**	(2,584)	2,740	(2,124)	156
Interest income from loans and receivables	28.1	**-**	**-**	-	-	19	-
Interest expense on deposits	28.2	**28**	**-**	8	-	15	-
Occupancy and equipment-related expenses	28.5(a)	**790**	**-**	715	-	926	-
Miscellaneous expenses – others	25.2	**78**	**-**	67	-	52	-

		Parent Company					
		2018		2017		2016	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**(P 24)**	**P -**	P 23	P 24	(P 1)	P 1
Deposit liabilities	28.2	**(197)**	**89**	43	286	67	243
Interest income from loans and receivables	28.1	**1**	**-**	2	-	-	-
Interest expense on deposits	28.2	**1**	**-**	3	-	1	-
Salaries and employee benefits	28.5(d)	**298**	**-**	328	-	271	-
Other Related Interests							
Loans and receivables	28.1	**(3,683)**	**3,153**	2,295	6,836	2,855	4,541
Deposit liabilities	28.2	**(1,564)**	**696**	2,145	2,260	(361)	115
Interest income from loans and receivables	28.1	**182**	**-**	560	-	567	-
Interest expense on deposits	28.2	**26**	**-**	16	-	3	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows:

	Group			
Related Party Category	**Issuances**	**Repayments**	**Interest Income**	**Loans Outstanding**
2018:				
Stockholders	P -	P 55	P 17	P 261
Related parties under common ownership	376	32	2	358
Key management personnel	9	207	1	13
Other related interests	2,480	9,433	182	3,153
	P 2,865	**P 9,727**	**P 202**	**P 3,785**
2017:				
Stockholders	P -	P 55	P 16	P 316
Related parties under common ownership	210	196	-	14
Key management personnel	691	481	2	211
Other related interests	8,267	2,702	560	10,106
	P 9,168	P 3,434	P 578	P 10,647
2016:				
Stockholders	P -	P 55	P 21	P 371
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 7,332	P 5,074	P 607	P 4,913

	Parent Company			
Related Party Category	**Issuances**	**Repayments**	**Interest Income**	**Loans Outstanding**
2018:				
Stockholders	P -	P 55	P 17	P 261
Subsidiaries	1,000	1	7	999
Related parties under common ownership	-	142	-	3,128
Key management personnel	-	24	1	-
Other related interests	622	4,305	182	3,153
	P 1,622	**P 4,527**	**P 207**	**P 7,541**

Related Party Category	Parent Company Issuances	Repayments	Interest Income	Loans Outstanding
2017:				
Stockholders	P -	P 55	P 16	P 316
Subsidiaries	-	222	-	-
Related parties under common ownership	9,744	6,474	-	3,270
Key management personnel	490	467	2	24
Other related interests	4,997	2,702	560	6,836
	P 15,231	P 9,920	P 578	P 10,446
2016:				
Stockholders	P -	P 55	P 21	P 371
Subsidiaries	1,276	1,276	-	222
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 8,608	P 6,350	P 607	P 5,135

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

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

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

	Group		Parent Company	
	2018	2017	**2018***	2017
Total outstanding DOSRI loans	**P 500**	P 542	**P 469**	P 509
Unsecured DOSRI	**94**	71	**83**	61
Past due DOSRI	**-**	1	**-**	1
Non-accruing DOSRI	**2**	1	**2**	1
Percent of DOSRI loans to total loan portfolio	**0.13%**	0.15%	**0.16%**	0.19%
Percent of unsecured DOSRI loans to total DOSRI loans	**18.80%**	13.10%	**17.70%**	11.98%
Percent of past due DOSRI loans to total DOSRI	**0.00%**	0.13%	**0.01%**	0.14%
Percent of non-accruing DOSRI loans to total DOSRI loans	**0.40%**	0.13%	**0.51%**	0.14%

**excludes exposure from a subsidiary*

On January 31, 2007, BSP issued Circular No. 560, *Ceiling on Loans, Other Credit Accommodations and Guarantees Granted to Subsidiaries and Affiliates*, which provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank.

As of December 31, 2018 and 2017, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2018 and 2017, the Group recognized impairment loss on certain loans and receivables from DOSRI amounting to P0.2 and P0.06, respectively, and is recognized as part of Impairment Losses account in the statements of profit or loss.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2018, 2017 and 2016 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2018:				
Stockholders	P 7,947	P 8,370	P 2	P 57
Associates	37,554	37,696	6	135
Related parties under common ownership	136,836	135,980	37	3,707
Key management personnel	539	731	1	94
Other related interests	163,957	165,189	26	1,062
	P 346,833	**P 347,966**	**P 72**	**P 5,055**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Associates	32,335	32,069	3	277
Related parties under common ownership	14,007	11,312	9	2,851
Key management personnel	416	373	3	286
Other related interests	213,907	211,728	16	2,294
	P 285,771	P 281,339	P 36	P 6,188
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,231
Associates	35,592	35,645	5	11
Related parties under common ownership	1,287,730	1,289,854	16	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 2,400,320	P 2,404,576	P 31	P 1,756

Related Party Category		Parent Company Deposits		Withdrawals		Interest Expense		Outstanding Balance
2018:								
Stockholders	P	7,947	P	8,370	P	2	P	57
Subsidiaries		91,950		92,029		6		364
Associates		37,554		37,696		6		23
Related parties under common ownership		136,276		135,894		28		3,122
Key management personnel		535		732		1		89
Other related interests		163,957		165,521		26		696
	P	**438,219**	**P**	**440,242**	**P**	**69**	**P**	**4,351**
2017:								
Stockholders	P	25,106	P	25,857	P	5	P	480
Subsidiaries		100,523		102,678		6		443
Associates		32,223		32,069		3		165
Related parties under common ownership		9,058		6,474		8		2,740
Key management personnel		416		373		3		286
Other related interests		136,192		134,047		16		2,260
	P	303,518	P	301,498	P	41	P	6,374
2016:								
Stockholders	P	36,518	P	38,303	P	6	P	1,231
Subsidiaries		974,281		973,728		5		2,598
Associates		35,592		35,645		9		11
Related parties under common ownership		1,287,730		1,289,854		15		156
Key management personnel		4,365		4,298		1		243
Other related interests		1,036,115		1,036,476		3		115
	P	3,374,601	P	3,378,304	P	39	P	4,354

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

28.4 Retirement Fund

The Parent Company and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2018, 2017 and 2016 as follows:

	Group		Parent Company	
Nature of Transactions	**Net Amount of Transaction**	**Outstanding Balance**	**Net Amount of Transaction**	**Outstanding Balance**
2018:				
Investment in common shares of Parent Company	(P 855)	P 1,867	(P 853)	P 1,863
Investments in corporate debt securities	49	51	49	49
Deposits with the Parent Company	(312)	5	(311)	-
Fair value losses	(855)	-	(849)	-
Interest income	5	-	3	-
2017:				
Investment in common shares of Parent Company	(P 6)	P 3,123	(P 6)	P 3,123
Investments in corporate debt securities	(49)	2	(49)	-
Deposits with the Parent Company	245	317	239	311
Fair value gains	1,272	-	1,266	-
Interest income	5	-	4	-
2016:				
Investment in common shares of Parent Company	P -	P 1,866	P -	P 1,863
Investments in corporate debt securities	(5)	51	-	49
Deposits with the Parent Company	75	72	72	72
Fair value gains	29	-	31	-
Interest income	4	-	3	-

The carrying amount and the composition of the plan assets as of December 31, 2018 and 2017 are disclosed in Note 24.2. Investments in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.8(b)]. Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2020.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2). The outstanding receivable on the lease contracts, if any, is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The initial lease is for a period of five years which ended in October 2018 and was renewed in September 2018 for an extended period. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2018	2017	2016
Short-term employee benefits	**P 619**	P 442	P 361
Post-employment defined benefits	**18**	16	15
	P 637	P 458	P 376

	Parent Company		
	2018	2017	2016
Short-term employee benefits	**P 298**	P 328	P 271
Post-employment defined benefits	**-**	-	-
	P 298	P 328	P 271

29. COMMITMENTS AND CONTINGENCIES

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

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

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2018 and 2017:

	Group		Parent Company	
	2018	2017	**2018**	2017
Trust department accounts	**P 87,639**	P 91,585	**P 58,061**	P 64,395
Derivative assets	**57,253**	46,230	**57,253**	46,230
Derivative liabilities	**53,261**	41,822	**53,261**	41,822
Outstanding guarantees issued	**49,553**	41,858	**49,553**	41,858
Unused commercial letters of credit	**19,231**	17,055	**19,194**	17,055
Spot exchange sold	**6,436**	6,307	**6,331**	6,198
Spot exchange bought	**6,330**	6,204	**6,330**	6,204
Inward bills for collection	**1,009**	1,407	**1,009**	1,407
Outward bills for collection	**614**	133	**614**	133
Late deposits/payments received	**607**	566	**569**	434
Others	**17**	17	**17**	17

29.2 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV-AMC), Inc. (GIHI) (collectively, "Global Steel"), which purchased the Iligan Plant assets of the NSC ("NSC Plant Assets") from the Liquidator in 2004, initiated arbitral proceedings against the Liquidator and the Secured Creditors, including the Parent Company and RCAP, with the Singapore International Arbitration Centre ("SIAC") for their failure to deliver the NSC Plant Assets free and clear from liens and encumbrances. This purportedly prevented Global Steel from using the same as collateral for additional loans for the operations and upgrade of the NSC Plant. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award directing the Liquidator and Secured Creditors to pay Global Steel the total amount of (a) US$80, as and by way of lost opportunity to make profit, and (b) P1,403, representing the value of the undelivered Billet Shop Land measuring 3.4071 hectares (the "Lost Land Claim").

On appeal, and on July 31, 2014, the Singapore High Court set aside the Partial Award, and (a) subsequently ordered the lifting of the 2008 injunctions issued against the Secured Creditors, thereby empowering the Secured Creditors to compel Global Steel to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon Global Steel's failure to do so, and (b) directed the release of Global Steel's installment payment to the Secured Creditors, which enabled the Parent Company and RCAP to receive their respective share therein.

On March 31, 2015, the Singapore Court of Appeals affirmed the earlier decision of the Singapore High Court which set aside the monetary award of US$80 and P1,403 in favor of Global Steel, and deemed improper the deferment of Global Steel's obligation to pay the purchase price of the NSC Plant Assets. The Singapore Court of Appeals further held that (a) the SIAC Arbitral Tribunal had no jurisdiction over the issue of lost opportunity to make profit, (b) there is no evidentiary support for such award, and (c) the ruling on the issue of the Lost Land Claim, as well as the dispute relating to Global Steel's payment obligation, both relate to the OMNA, which is not arbitrable. Accordingly, the SIAC Arbitral Tribunal cannot compel the Parent Company, RCAP and the other Secured Creditors to defer holding Global Steel in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

On November 27, 2015, the Singapore Court of Appeals clarified that the issue of Global Steel's lost opportunity to make profit cannot be remanded to the SIAC Arbitral Tribunal, or to a new arbitral tribunal, to be litigated anew after the setting aside of the Partial Award. The doctrines of res judicata and abuse of process also operated to preclude the reopening of this issue. However, the Singapore Court of Appeals held that the Lost Land Claim may be brought before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the Secured Creditors.

The Parent Company's estimated exposure is approximately P216 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of P486, taking into consideration the P49 share it received from Global Steel's installment payment. The Parent Company has recognized full impairment loss on the receivable since then, with the gross amount of receivable classified as UDSCL under Loans and Receivable account. The Parent Company's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the NSC assets sold to Global Steel, covering the period 1999 to October 14, 2004, are deemed paid, following the finality of the Supreme Court Decision against the City of Iligan and the issuance of an Entry of Judgment on March 16, 2016, in the case initiated solely by the NSC Liquidator.

In defiance, however, of the final and executory ruling against the City of Iligan, (a) issued a Notice of Delinquency against NSC for tax arrears covering the period 1999 to 2016, (b) levied the NSC properties, and (c) set the public auction thereof on October 19, 2016, even as the Local Government Unit (LGU) received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57 ("Makati Trial Court"), directing it to (a) comply with the affirmed Tax Amnesty Agreement dated October 13, 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion to (a) direct the City of Iligan, the Sangguniang Panglunsod and City Treasurer to show cause why they should not be held in contempt, and (b) nullify the October 19, 2016 Auction Sale of the NSC properties.

In an Order dated April 4, 2017, the Makati Trial Court (a) nullified the public auction of the NSC properties, and (b) enjoined the collection of any and all real property tax against the NSC until the Decision dated October 7, 2011 holding that the NSC pre-closing taxes have been paid, is fully executed and the NSC's remaining tax liabilities are correctly computed. The Makati Trial Court likewise (a) directed the Iligan City Treasurer to show cause why she should not be held in contempt of court for proceeding with the auction sale without clearing the NSC of the pre-closing taxes, and (b) directed the Iligan City Treasurer, among others, to inform the Makati Trial Court of the names of the persons who ordered, aided and abetted her assailed conduct. The LGU and the Iligan City Treasurer, among others, moved for the reconsideration of the April 4, 2017 Order, which was denied by the Makati Trial Court.

The City of Iligan filed a Petition for Certiorari dated July 6, 2018 with the Court of Appeals, reiterating the claim that the said LGU had the right to auction the NSC properties due to non-payment of both pre-closing and post-closing taxes. The Petition likewise alleged that (a) the writ of execution issued by the Makati Trial Court was null and void, and (b) the case before the Makati Trial Court was an action to assail the tax delinquency auction sale which should not have been given due course for non-payment of docket fees and non-deposit of the contested tax amount of P4,610.

29.3 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. ("VMS"), a Netherlands corporation and an Internet merchant providing on-line adult entertainment, on-line gambling, and on-line selling of pharmaceuticals, and Verotel International Industries, Inc. ("VII"), a Philippine corporation, civilly sued the Parent Company, Bankard, Inc. ("Bankard"), Grupo Mercarse Corp., CNP Worldwide, Inc. and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5, which the defendants allegedly misappropriated.
The case went to trial in January 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for the Presiding Judge's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. After manifesting their intention to file a motion for judgment notwithstanding verdict ("JNOV") and motion for new trial, the Parent Company/Bankard filed the same on April 11, 2016. On April 27, 2016, the Parent Company/Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, the Parent Company/Bankard's Motion for JNOV was partially granted, wherein the award of US$7.5 punitive damages to VMS was deleted due to insufficient proof that (a) a corporate officer of the Parent Company/Bankard knew of, authorized, or ratified fraudulent acts, and (b) Janet Conway was a managing agent of the Parent Company/Bankard within the meaning of the California Civil Code Section 3294(b). However, the Presiding Judge ruled that Conway was an agent for some purpose and awarded US$1.5 to VMS. The Presiding Judge likewise denied the Parent Company/Bankard's Motion for New Trial, and awarded VMS pre-judgment interest in the amount of US$0.5.

On July 11, 2016, the Parent Company/Bankard filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals. VMS filed its own Notice of Appeal. On July 21, 2016, the Parent Company/Bankard timely posted the amount of US$3.1, as and by way of security to stay the enforcement of the Amended Judgment rendered by the Presiding Judge.

On September 8, 2016, VMS filed its unsealed Certificate of Interested Persons, after the California Court of Appeals sustained the Parent Company/Bankard's position that the identities of the persons behind VMS is central to the issue of whether VMS has legal standing to sue and is entitled to any damages. In an Order dated/filed on November 16, 2016, the California Court of Appeals adopted the briefing sequence proposed by the Parent Company/ Bankard, thus, allowing the full ventilation of the case on appeal.

Subsequently, on March 7, 2017, the Presiding Judge directed the Parent Company/Bankard to pay VMS the additional amount of US$0.08 covering cost of proof sanctions, ruling that the Parent Company/Bankard unjustifiably denied VMS's request for admission that they failed to comply with MasterCard and VISA association rules. The Parent Company/Bankard timely filed their Notice of Appeal but no longer posted any additional filing fees, following VMS's agreement not seek to enforce of the said award during the pendency of the appeal.

The Parent Company/Bankard filed their Revised Opening Brief on their Appeal on October 2, 2017, pointing out that: (a) VMS failed to prove that its losses was caused by the Parent Company/Bankard, as the evidence indicate that, in a side deal without Bankard's knowledge and consent, VMS was processing transactions under/using the Merchant ID of another merchant which did not remit all of the sales proceeds so generated; (b) there is no contract/ processing relationship between VMS and Bankard; (c) there is no substantial evidence proving that the Parent Company/Bankard caused VMS's loss under agency law, given that (i) Conway could not be Bankard's agent as a matter of law, because she was defrauding Bankard, (ii) plaintiffs did not establish that Conway was an agent of Bankard, (iii) plaintiff did not establish that Conway was a purported agent of Bankard, and (iv) plaintiffs did not establish that Conway's wrongful conduct was within the scope of her agency; and, (d) the Presiding Judge abused his discretion in awarding cost of proof sanctions.

On March 28, 2018, the Parent Company/Bankard was advised of the filing of VMS's Combined Respondents' Brief and Cross-Appellants' Opening Brief. On August 14, 2018, the Parent Company/Bankard filed their combined Reply and Cross-Respondent's Brief. In accordance with prior stipulations, VMS timely filed its Final Reply Brief dated October 31, 2018. The parties are now awaiting the advice of the California Court of Appeals on the schedule date of the oral arguments.

29.4 Applicability of RR 4-2011

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

On April 6, 2015, the Parent Company and other member-banks of the Bankers Association of the Philippines ("other BAP member banks") filed a Petition for Declaratory Relief with Application for TRO and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein it was pointed out, among others, that (a) RR 4-2011 violates the Parent Company and other BAP member banks' procedural and substantive due process rights; (b) it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (c) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation; and, (d) it violated the equal protection clause of the Constitution for requiring the Parent Company and other BAP member banks to adopt a method of allocation when other institutions and taxpayers were not being required to do so by the Department of Finance ("DOF") and BIR.

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

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

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

29.5 Poverty Eradication and Alleviation Certificates Bonds

In October 2011, after filing a case before the Court of Tax Appeals, the Parent Company withdrew the same and joined other banks in questioning the BIR's act of withholding a 20% final tax on the PEACe Bonds before the Supreme Court. Notwithstanding the pendency of the case and the Supreme Court's issuance of a Temporary Restraining Order ("TRO"), on October 18, 2011, the Bureau of Treasury still withheld P199 from its interest payment on the Parent Company's PEACe bonds holdings. The amount was originally recognized as part of Accounts Receivables under Loans and Receivables account in the statements of financial position until it was settled in 2017.

On January 13, 2015, the Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20% final withholding tax it withheld on the PEACe Bonds in October 2011. On March 16, 2015, the Parent Company and RCAP filed a Motion for Clarification and/or Partial Reconsideration, (a) seeking the exclusion of the PEACe Bonds from the definition of "deposit substitutes" as there was only one lender at the primary market, and their subsequent sales in the secondary market is considered a sale or assignment of credit not subject to withholding tax; (b) praying that, in the event the PEACe Bonds is considered as a deposit substitute, that the final withholding tax be directly collected from RCAP/Code NGO, or any lender or investor, as withholding agents; and (c) reiterating that the tax constitutes double taxation, violates the non-impairment clause of the Constitution, and is a breach of the Bureau of Treasury's obligation as issuer of the PEACe Bonds. The Office of the Solicitor General ("OSG"), as counsel for the Republic and other public respondents, also filed a Motion for Reconsideration and Clarification, arguing the correctness of the BIR's position and asking for clarification on the effect of the ruling on other government securities.

In a Resolution dated October 5, 2016, the Supreme Court partially granted the Parent Company and RCAP's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this ruling, however, cannot be applied retroactively in the case of the Parent Company and RCAP, which relied in good faith on the previous rulings/opinions of the BIR on the matter, and (c) as such, the PEACe Bonds cannot be treated as a deposit substitute. The Supreme Court likewise denied the Motion for Reconsideration and Clarification filed by the OSG, holding that due to the Bureau of Treasury's continued refusal to release the amount it withheld on October 18, 2011, in violation of the TRO, the Bureau of Treasury is liable to pay legal interest of six percent (6%) per annum on the said amount, counted from October 19, 2011 until fully paid.

On April 11, 2017, the Parent Company received a copy of the Entry of Judgment attesting to the finality of the Decision dated January 13, 2015, and the Resolution dated August 16, 2016 granting its Motion for Clarification and/or Partial Reconsideration, as of October 20, 2016. After initially paying the amount of P197 to the Parent Company, the Bureau of Treasury paid the balance of P1.8 on October 18, 2018.

29.6 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company occurred, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board of the BSP imposed supervisory action on the Parent Company and directed it to pay the fine of P1,000. The Parent Company has fully recognized in the 2016 statement of profit or loss the P1,000 supervisory action as part of Miscellaneous Expenses under Other Operating Expenses account (see Note 25.2), and has fully paid the same. The Parent Company does not expect this imposition of supervisory action to affect its ability to perform its existing obligations or unduly hamper its operations.

On November 2018, the Anti-Money Laundering Council ("AMLC") filed a criminal complaint against former and current officers and employees of the Parent Company with the Department of Justice ("DOJ"). The AMLC alleged that Raul Victor B. Tan ("Tan"), Ismael S. Reyes ("Reyes"), Brigitte R. Capiña ("Capiña"), Nestor O. Pineda ("Pineda"), Romualdo S. Agarrado ("Agarrado") and Angela Ruth S. Torres ("Torres") violated Section 4(f) of R.A. No. 9160, as amended ("AMLA"), when they performed or failed to perform an act, which facilitated the crime of money laundering particularly the remittance and eventual withdrawal of US$81 from certain accounts maintain in the Parent Company.

On March 27, 2017, Tan, Reyes, Capiña, and Agarrado, filed their Joint Counter-Affidavit contesting, among others, their culpability and the existence of several required elements to the charges alleged by the AMLC. On May 18, 2017, the AMLC filed its Consolidated and Joint Reply Affidavit. On July 10, 2017, Tan, Reyes, Capiña and Agarrado filed their respective Individual Rejoinder Affidavits. In a Resolution dated February 5, 2018, the newly assigned DOJ investigating prosecutor found probable cause against Tan, et al., and recommended the filing of the corresponding Information against them. On March 22, 2018, Tan, Reyes, Capiña, and Agarrado timely filed their Motion for Reconsideration on the aforementioned DOJ Resolution.

In a belatedly filed Consolidated Opposition dated June 21, 2018, the AMLC insisted that the Philippine courts have adopted the US "Willful Blindness" doctrine, and that the contents of the MT103 message should have made Tan, Reyes and Capiña suspicious of the remittances in issue. In their Reply dated August 7, 2018, Tan, Reyes and Capiña pointed out, among others, that (a) the AMLC's position is a departure from its earlier claim that they ought to be charged for failing to read the same MT103 message, and (b) only final decisions of the Supreme Court become judicial precedents, and that the cited tax evasion decision of the Court of Tax Appeals cannot be accorded the same status. Agarrado, for his part, reiterated that it was Torres and Maia S. Deguito ("Deguito") who approved the large transaction withdrawals on February 9, 2016.

On March 8, 2016, William S. Go ("Go"), an existing client of the Parent Company in another Business Center, and the Parent Company, filed criminal charges against Deguito and Torres with the Office of the City Prosecutor of the Makati City ("OCP-Makati"). The criminal complaints alleged that the two former employees of the Parent Company (a) falsified bank documents in order to open fictitious US Dollar and Peso denominated accounts in the name of Go DBA Centurytex Trading, which were used in the transfer/ conversion of US$81 allegedly unlawfully debited from the Bank of Bangladesh's account with the New York Federal Bank, and (b) Torres committed perjury when she executed an affidavit identifying Go as the person who allegedly received the P20 withdrawn from his fictitious Peso account on February 5, 2016.

The OCP-Makati found probable cause to charge Deguito with several counts of falsification, now pending before the Metropolitan Trial Court of Makati City, Branch 63 ("Makati MTC"). On the other hand, the OCP-Makati dismissed the charges of falsification against Torres, but found probable cause to charge her for perjury, which is also pending in the Makati MTC. The Parent Company appealed the dismissal of the falsification charge against Torres, as with the dismissal of its criminal complaint against another former employee of the Parent Company who conspired with Deguito and Torres.

On October 22, 2018, as a result of the untimely death of Go, the Prosecution applied for a subpoena for the video recordings and the Transcript of Stenographic Notes of Go's testimony before the Senate Blue Ribbon Committee, showing Go's denial that he had anything to do with the February 5, 2016 transactions at the Jupiter Business Center of the Parent Company.

29.7 RCBC Securities Case

In December 2011, RSI initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), who carried out certain questionable transactions with her own personal clients. Since then, RSI has filed additional criminal and civil cases against Valbuena, and on November 17, 2016, the Makati MTC, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC P30, payable in five years, in settlement of all the claims against her, which RSI refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties.

In May 2012, the Capital Markets Integrity Corporation ("CMIC") conducted an investigation on the complaint filed by Francisco Ken Cortes ("Cortes") against RSEC. On July 3, 2015, the CMIC issued a Resolution dismissing the said complaint. After the denial of his Motion for Reconsideration, Cortes no longer appealed the same to the SEC en banc. Thus, the dismissal of his complaint became final and executory.

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio Holdings, Inc. ("Cognatio") likewise filed a complaint against RSI with the CMIC, even as Cognatio's earlier complaint dated December 30, 2013 against RSI, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, remained pending with the Enforcement and Investor Protection Department of the SEC ("EIPD-SEC") ("SEC Cognatio Case").

In its decision letter dated December 4, 2014, the CMIC dismissed the complaint filed by Palanca and Cognatio on the ground of prescription and res judicata, which the latter appealed to the SEC en banc. The SEC en banc granted Palanca and Cognatio's appeal. In turn, RSI elevated the said decision to the Court of Appeals, which (a) ruled in its favor, holding that Palanca and Cognatio committed willful and deliberate forum shopping, and (b) denied Palanca and Cognatio's Motion Reconsideration in its Resolution dated September 5, 2018. On September 26, 2018, Palanca and Cognation signified their intention to challenge the decision and resolution of the Court of Appeals before the Supreme Court via a Petition for Review to be filed on or before October 11, 2018.

Citing the decision of the Court of Appeals finding Palanca and Cognatio guilty of willful and deliberate forum-shopping, RSI and its former Vice President for Operations/Chief Finance Officer filed a Manifestation with Motion to Dismiss the SEC Cognatio Case, which remains pending with the EIPD-SEC.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Makati Trial Court, Branch 149, principally praying for the return of his shares of stock and cash payments which he supposedly turned over to Valbuena. RSI sought the dismissal of the complaint on the ground of lack of jurisdiction due to the non-payment of the correct filing fees and failure to state a case of action, which was denied by the Makati Trial Court. Aggrieved, RSI filed a Petition for Certiorari with the Court of Appeals, which ruled in favor of RSI in its Decision dated October 9, 2014.

Ku elevated the ruling of the Court of Appeals to the Supreme Court via a Petition for Review, which was granted in the Decision dated October 17, 2018. The Supreme Court held that the Court of Appeals erred in dismissing the case, as Ku's immediate payment of the deficiency docket fees indicate a lack of intention to evade the payment of the correct filing fees. RSI filed its Motion for Reconsideration on November 28, 2018. Having been apprised of the Decision of the Supreme Court, the Makati Trial Court issued an Order dated November 26, 2018, setting a status conference case on December 14, 2018.

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

29.8 Lease Commitments

(a) Parent Company as a Lessor

The Parent Company has entered into various lease contracts related to RSB Corporate Center, an investment property held for rental, with lease terms ranging from one to five years and with monthly rent depending on market price with 5% escalation rate every year. Total rent income earned from these leases amounted to P328, P297, and P280 in 2018, 2017, and 2016, respectively, which are presented as part of Rental under the Miscellaneous Income account in the statements of profit or loss (see Note 25.1). A certain office and parking spaces in RSB Corporate Center are being lease out to RSB [see Note 28.5(b)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	2018	2017
Within one year	**P 573**	P 375
After one year but not more than five years	**804**	486
	P 1,377	P 861

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers for lease periods from one to 25 years. The Group's rental expense related to these leases (included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss) amounted to P1,187, P977, and P742 in 2018, 2017, and 2016, respectively. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

The future minimum rental payables under these non-cancellable operating leases are as follow:

	Group		Parent Company	
2018:				
Within one year	P	1,007	P	727
After one year but not more than five years		3,025		2,236
More than five years		323		259
	P	**4,355**	**P**	**3,222**
2017:				
Within one year	P	811	P	673
After one year but not more than five years		2,640		2,375
More than five years		335		291
	P	3,786	P	3,339

30. EARNINGS PER SHARE

The following shows the Group's profit and per share data used in the basic and diluted EPS computations for the three years presented:

	2018		2017		2016	
Net profit	**P**	**4,320**	P	4,308	P	3,868
Weighted average number of outstanding common stocks		**1,646**		1,400		1,400
Basic and diluted EPS	**P**	**2.62**	P	3.08	P	2.76

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group		
	2018	2017	2016
Return on average equity			
Net profit / Average total equity	**5.78%**	6.72%	6.42%
Return on average resources			
Net profit / Average total resources	**0.73%**	0.82%	0.77%
Net interest margin			
Net interest income / Average interest earning resources	**4.00%**	4.25%	4.06%
Profit margin			
Net profit / Revenues	**16.31%**	17.15%	16.95%
Debt-to-equity ratio			
Total liabilities / Total equity	**6.94**	7.27	7.39
Resources-to-equity ratio			
Total resources / Total equity	**7.94**	8.27	8.39
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.50**	1.73	1.50

	Parent Company		
	2018	2017	2016
Return on average equity			
Net profit / Average total equity	**5.79%**	6.74%	6.43%
Return on average resources			
Net profit / Average total resources	**0.90%**	1.02%	0.93%
Net interest margin			
Net interest income / Average interest earning resources	**3.80%**	3.85%	3.47%
Profit margin			
Net profit / Revenues	**20.88%**	22.34%	22.67%

	Parent Company		
	2018	2017	2016
Debt-to-equity ratio			
Total liabilities / Total equity	**5.30**	5.60	5.73
Resources-to-equity ratio			
Total resources / Total equity	**6.30**	6.60	6.73
Interest rate coverage			
Earnings before interest and taxes / Interest expense	**1.68**	1.95	1.60

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's and Parent Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (see Note 18)		**Bonds Payable (see Note 19)**		**Total Financing Activities**	
	Group	**Parent**	**Group**	**Parent**	**Group**	**Parent**
Balance at January 1, 2018	P 43,967	P 36,600	P 28,060	P 28,060	P 72,027	P 64,660
Cash flow from financing activities:						
Availments	44,522	42,769	23,520	23,520	68,042	66,289
Payments/redemption	(32,790)	(30,912)	-	-	(32,790)	(30,912)
Non-cash financing activities:						
Foreign exchange losses	302	302	1,489	1,489	1,791	1,791
Amortization of premium	-	-	21	21	21	21
Balance at December 31, 2018	**P 56,001**	**P 48,759**	**P 53,090**	**P 53,090**	**P 109,091**	**P 101,849**
Balance at January 1, 2017	P 37,643	P 31,712	P 41,595	P 41,595	P 79,238	P 73,307
Cash flow from financing activities:						
Availments	20,561	15,477	-	-	20,561	15,477
Payments/redemption	(14,472)	(10,788)	(13,687)	(13,687)	(28,159)	(24,475)
Non-cash financing activities:						
Foreign exchange losses	235	199	118	118	353	317
Amortization of premium	-	-	34	34	34	34
Balance at December 31, 2017	P 43,967	P 36,600	P 28,060	P 28,060	P 72,027	P 64,660

33. EVENT AFTER THE REPORTING PERIOD

In January 2019, a certain borrower of the Parent Bank has filed in court for a corporate rehabilitation involving a proposed restructuring of the borrower's outstanding loans as of December 31, 2018. The proposed loan restructuring stipulates a three-year grace period of both loan principal and interest with a commitment to pay the restructured loan on a monthly basis commencing on January 2022.