	Group		
	2017	2016	2015
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	P 230	P 73	P 73
Experience adjustments	113	(2)	(127)
Demographic assumptions	-	6	32
Effect of asset ceiling test	(7)		-
Return on plan assets (excluding amounts included in net interest)	1,174	(402)	(1,013)
	P 1,510	(P 325)	(P 1,045)

	Parent Company		
	2017	2016	2015
Reported in profit or loss:			
Current service costs	P 307	P 280	P 266
Net interest expense	81	60	5
	P 388	P 340	P 271
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	P 206	P 63	P 68
Experience adjustments	125	(18)	(57)
Effect of asset ceiling	(7)	-	
Return on plan assets (excluding amounts included in net interest)	1,167	(394)	(998)
	P 1,491	(P 349)	(P 987)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense – Bills Payable and Other Borrowings or Interest Income Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

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

	2017	2016	2015
Group			
Discount rates	5.40% - 6.00%	5.10% - 5.60%	5.05% - 5.15%
Expected rate of salary increases	4.00% - 8.00%	3.00% - 11.00%	5.00% - 10.00%
Parent Company			
Discount rates	6.00%	5.55%	5.15%
Expected rate of salary increases	5.00%	5.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 1994 GAM table, set back six years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Group				
	Impact on Post-employment Defined Benefit Obligation				
	Change in Assumption	**Increase in Assumption**		**Decrease in Assumption**	
2017:					
Discount rate	+/-1 %	(P	323)	P	403
Salary growth rate	+/-1 %		480	(	388)
2016:					
Discount rate	+/- 1%	(P	166)	P	92
Salary growth rate	+/- 1%		186	(	91)

	Parent Company				
	Impact on Post-employment Defined Benefit Obligation				
	Change in Assumption	**Increase in Assumption**		**Decrease in Assumption**	
2017:					
Discount rate	+/- 1%	(P	391)	P	456
Salary growth rate	+/- 1%		413	(	363)
2016:					
Discount rate	+/- 1%	(P	153)	P	172
Salary growth rate	+/- 1%		147	(	133)

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Plan Committee in coordination with the Group's Trust Departments, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover). As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2017 and 2016 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P111 and P33 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2017.

The maturity profile of undiscounted expected benefit payments from the plan within 10 years from the end of each reporting period follows:

	Group		Parent Company	
	2017	2016	**2017**	2016
Less than one year	**P 226**	P 139	**P 44**	P 75
More than one year to five years	**1,319**	1,068	**1,094**	888
More than five years to ten years	**2,425**	1,970	**1,984**	1,752
	P 3,970	P 3,177	**P 3,122**	P 2,715

The Group and Parent Company expects to contribute P418 and P318, respectively, to the plan in 2018.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

	Notes	Group 2017	Group 2016	Group 2015
Rentals	14.2	P 741	P 614	P 355
Gains on assets sold	11, 14.1, 15.1	441	120	281
Dividend income	10.2	234	449	237
Recoveries from written off assets		187	161	169
Others		290	254	171
		P 1,893	P 1,598	P 1,216

	Notes	Parent Company 2017	Parent Company 2016	Parent Company 2015
Rentals	14.2, 28.5(a)	P 419	P 407	P 375
Gains on assets sold	14.1	378	139	162
Dividend income	10.2	196	307	87
Others		136	231	215
		P 1,129	P 1,084	P 839

Miscellaneous income classified as Others includes rebates, penalty charges and other income that cannot be appropriately classified under any of the foregoing income accounts.

25.2 Miscellaneous Expenses

	Note	Group 2017	Group 2016	Group 2015
Credit card-related expenses		P 884	P 663	P 584
Insurance		759	738	656
Communication and information services		447	452	443
Management and other professional fees		368	408	529
Advertising and publicity		323	276	289
Transportation and travel		214	200	295
Banking fees		193	194	190
Stationery and office supplies		149	132	129
Other outside services		130	126	112
Donation and charitable contribution		51	38	61
Representation and entertainment		22	45	94
Litigation/assets acquired expenses		166	385	247
Membership fees		19	21	19
Others	29.6	1,153	1,783	1,027
		P 4,878	P 5,470	P 4,675

	Notes	Parent Company 2017	2016	2015
Credit card-related expenses		P 864	P 663	P 584
Insurance	28.5(c)	564	504	527
Service and processing fees		697	501	511
Communication and information services		326	281	258
Advertising and publicity		244	206	191
Management and other professional fees		188	217	175
Banking fees		148	114	141
Other outside services		115	113	100
Transportation and travel		110	93	159
Stationery and office supplies		92	86	81
Donations and charitable contributions		51	55	56
Litigation/assets acquired expense		50	181	81
Representation and entertainment		22	13	41
Membership fees		19	18	15
Others	29.6	543	1,411	476
		P 4,035	P 4,559	P 3,396

The Group's other expenses are composed of freight, employee activities expenses, fines and penalties, and seasonal giveaways. The Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P36, P55 and P53 in 2017, 2016 and 2015 respectively (see Note 28.5).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

In 2017, 2016 and 2015, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

The tax expense (income) as reported in the statements of profit or loss consists of:

	Group		
	2017	2016	2015
Current tax expense:			
RCIT	P 711	P 414	P 459
Final tax	203	177	326
Excess MCIT over RCIT	2	190	46
	916	781	831
Application of MCIT	(356)	-	-
	560	781	831
Deferred tax expense (income) relating to origination and reversal of temporary differences	281	(955)	(1,138)
	P 841	(P 174)	(P 307)

	Parent Company		
	2017	2016	2015
Current tax expense:			
RCIT	P 563	P 140	P 161
Final tax	147	173	254
Excess MCIT over RCIT	-	190	46
	710	503	461
Application of MCIT	(356)	-	-
	354	503	461
Deferred tax expense (income) relating to origination and reversal of temporary differences	343	(842)	(443)
	P 697	(P 339)	P 18

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

	Group 2017	Group 2016	Group 2015
Tax on pretax profit at 30%	P 1,545	P 1,109	P 1,440
Adjustments for income subjected to lower income tax rates	(434)	(180)	(142)
Tax effects of:			
Non-taxable income	(786)	(845)	(539)
Non-deductible expenses	595	520	356
Recognition of previously unrecognized deferred tax asset	-	(865)	(992)
Utilization of MCIT	356	-	
FCDU income	(306)	(388)	(125)
Unrecognized temporary differences	(130)	97	129
Utilization of NOLCO	1	374	(443)
Others	-	4	(9)
	P 841	(P 174)	(P 307)

	Parent Company 2017	Parent Company 2016	Parent Company 2015
Tax on pretax profit at 30%	P 1,502	P 1,059	P 1,344
Adjustments for income subjected to lower income tax rates	(384)	(118)	(108)
Tax effects of:			
Non-taxable income	(899)	(889)	(548)
Non-deductible expenses	531	420	423
Recognition of previously unrecognized deferred tax asset	-	(797)	(992)
Utilization of MCIT	356		
FCDU income	(275)	(388)	(125)
Unrecognized temporary differences	(134)	-	(282)
Utilization of NOLCO	-	374	(443)
	P 697	(P 339)	P 18

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2017 and 2016 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position 2017	Statements of Financial Position 2016	Statements of Profit or Loss 2017	Statements of Profit or Loss 2016	Statements of Profit or Loss 2015
Allowance for impairment	P 1,610	P 1,619	(P 9)	P 867	P 695
Provision for credit card reward payments	127	105	22	105	-
Excess MCIT	60	356	(296)	356	-
Post-employment benefit obligation	52	60	(8)	59	-
Deferred rent – PAS 17	30	17	13	16	-
NOLCO	-	-	-	(443)	443
Others	17	20	(3)	15	-
Deferred tax assets	P 1,896	P 2,177			
Deferred tax income (expense) – net			(P 281)	P 955	P 1,138

In 2015, the Parent Company recognized deferred tax asset amounting to P443 on a portion of its unutilized NOLCO amounting to P1,476. The total unutilized NOLCO amounted to P1,823 as of December 31, 2015. In 2016, the Parent Company utilized a portion of the remaining NOLCO amounting to P1,246, while the balance of P577 expired.

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2017 and 2016 is shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2017	2016	2017	2016	2015
Allowance for impairment	P 720	P 780	(P 60)	P 780	P -
Provision for credit card reward payments	127	105	22	105	-
Post-employment benefit obligation	52	18	34	18	-
Deferred rent – PAS 17	30	17	13	17	-
Excess MCIT	-	356	(356)	356	-
NOLCO	-	-	-	(443)	443
Others	13	9	4	9	-
Deferred tax assets	P 942	P 1,285			
Deferred tax income (expense) – net			(P 343)	P 842	P 443

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2017	2016	2017	2016
Allowance for impairment	P 925	P 2,169	P 763	P 629
Excess MCIT	60	6	-	-
NOLCO	51	77	-	
Post-employment benefit obligation	24	478	-	446
Advance rental	1	2	-	-
	P 1,061	P 2,732	P 763	P 1,075

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

The details of the Group's NOLCO, which can be claimed as deduction from future taxable income within three years from the year the taxable loss was incurred and within five years from the year SPC losses were incurred, is shown below:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2016	P 190	P 20	P -	P 170	2019
2014	67	-	67	-	
	P 257	P 20	P 67	P 170	

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2017	P 56	P -	P -	P 56	2020
2016	194	190	-	4	2019
2015	46	46	-	-	
2014	122	120	2	-	
	P 418	P 356	P 2	P 60	

The P356 available MCIT applied by the Group in 2017 solely pertains to the MCIT of the Parent Company as it has generated net taxable income and is liable for RCIT for the year ended December 31, 2017.

26.2 Supplementary Information Required Under RR 15-2010 and RR 19-2011

The BIR issued RR 15-2010 and RR 19-2011 on November 25, 2010 and December 9, 2011, respectively, which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the financial statements, since these are not resources of the Parent Company and RSB. The Group's total trust resources amounted to P91,585 and P84,804 as of December 31, 2017 and 2016, respectively. The Parent Company's total trust resources amounted to P64,395 and P61,260 as of December 31, 2017 and 2016, respectively (see Note 29.1).

In connection with the trust operations of the Parent Company and RSB, time deposit placements and government securities with a total face value of P953 for the Group and P704 for the Parent Company were deposited with the BSP in 2016. On October 27, 2016, the BSP issued a memorandum notifying the approval of Monetary Board on the discontinuance of access of trust entities to the BSP deposit facilities effective on July 1, 2017. The BSP mandates that the BSP deposit facilities should serve as a monetary policy instrument for managing domestic liquidity in the financial system and these are not intended to become an investment outlet of banks and trust entities. Consequently, the Group has withdrawn all its outstanding deposits and placements with BSP in 2017.

In compliance with existing BSP regulations, 10% of the Parent Company's and RSB's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's and RSB's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the statements of changes in equity.

The Group and the Parent Company transferred from Surplus to Reserve for Trust Business P21 and P16, respectively, in 2017; P27 and P22, respectively, in 2016, and, P22 and P15, respectively, in 2015.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, entities under common ownership, key management personnel and others.

A summary of the Group's and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2017, 2016 and 2015 is presented below.

		Group					
		2017		2016		2015	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	(P 55)	P 316	(P 551)	P 321	(P 557)	P 436
Deposit liabilities	28.2	(751)	480	(1,785)	1,211	1,545	3,018
Interest expense on deposits	28.2	5	-	6	-	5	-
Issuance of shares of stock	28.2	-	-	-	-	7,327	-
Interest income from loans and receivables	28.2	16	-	21		29	
Associates							
Deposit liabilities	28.2	266	277	(55)	11	(64)	66
Interest expense on deposits	28.2	3	-	5		3	-
Dividend	12	59	-	124		76	-
Related Parties Under Common Ownership							
Loans and receivables	28.2	14	14	(541)	-	(1,906)	541
Deposit liabilities	28.2	2,695	2,851	(2,124)	156	(596)	2,242
Interest expense on deposits	28.2	9	-	16	-	19	-
Occupancy and equipment related expenses	28.5(a)	715	-	926		820	9
Miscellaneous expense – others	28.2	67	-	52	-	54	-
Interest income from loans and receivables	28.1	-	-	19		35	

		Group					
		2017		2016		2015	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	P 210	P 211	(P 1)	P 1	(P 5)	P 4
Deposit liabilities	28.2	45	286	(61)	241	(287)	171
Interest income from loans and receivables	28.1	2	-	-	-	-	-
Interest expense on deposits	28.1	3	-	1	-	5	
Salaries and employee benefits	25.3(d)	458	-	176	-	550	-
Other Related Interests							
Loans and receivables	28.1	5,565	10,306	(2,855)	4,541	(249)	7,396
Deposit liabilities	28.2	2,179	2,294	(162)	115	78	601
Interest income from loans and receivables	28.1	560	-	567	-	105	-
Interest expense on deposits	28.2	16	-	1	-	2	

		Parent Company					
		2017		2016		2015	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.2	(P 55)	P 316	(P 551)	P 371	(P 557)	P 426
Deposit liabilities	28.2	(751)	480	(1,755)	1,231	1,545	3,018
Interest expense on deposits	28.2	5	-	6	-	5	-
Issuance of shares of stock	25.2	-	-	-	-	2,329	
Interest income from loans and receivables	28.1	16	-	21	-	29	

		Parent Company					
		2017		2016		2015	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries							
Loans and receivable	28.1	(P 222)	P -	P	P 222	P 142	P 222
Deposit liabilities	28.2	(3,335)	443	553	2,595	26	2,065
Interest income from loans and receivable	28.1	-	-	-	-	5	-
Interest expense on deposits	28.2	3	-	5	-	6	-
Dividend	12	315	-	1,406		962	-
Rental income	28.5(a) 28.5(b)	191	-	168		175	6
Occupancy and equipment-related expenses	28.5(c)	33	-	156	-	153	1
Service and processing fees	28.5(e)	499	-	495	29	410	59
Sale of investment securities	28.3	175	-	810	-	1,256	
Purchase of investment securities	28.3	5	-	601	-	844	-
Capital subscriptions	12.1	-	-	-	-	750	500
Assignment of receivables	11, 28.1	(101)	192	(201)	202	221	212
Associates							
Deposit liabilities	28.2	264	277	(53)	11	(603)	46
Interest expense on deposits	28.2	3	-	5	-	1	-
Dividend		59	-	124	-	76	-

		Parent Company					
		2017		2016		2015	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Related Parties Under Common Ownership							
Loans and receivables	28.1	P 10	P 14	(P 511)	P	(P 1,066)	P 541
Deposit liabilities	28.2	(2,584)	2,740	(2,124)	156	(995)	2,292
Interest income from loans and receivables	28.1	-	-	19		55	-
Interest expense on deposits	28.2	8	-	15	-	10	
Occupancy and equipment-related expenses	28.5(d)	715	-	926		829	-
Miscellaneous expenses – others	25.2	67	-	52	-	51	
Key Management Personnel							
Loans and receivables	28.2	196	197	(11)	1	(57)	2
Deposit liabilities	28.2	43	206	62	215	(2875)	176
Interest income from loans and receivables	28.1	2	-	-	-	-	-
Interest expense on deposits	28.2	3	-	1	-	5	-
Salaries and employee benefits	28.5(d)	328	-	278	-	221	-
Other Related Interests							
Loans and receivables	28.1	9,965	10,306	2,855	4,541	65	1,285
Deposit liabilities	28.2	2,145	2,264	(301)	115	-	475
Interest income from loans and receivables	28.1	560	-	507		155	-
Interest expense on deposits	28.2	16	-	3	-	2	-

28.1 Loans and Receivables

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2017, 2016 and 2015 are as follows:

Related Party Category	Group			
	Issuances	Repayments	Interest Income	Loans Outstanding
2017:				
Stockholders	P -	P 55	P 16	P 316
Related parties under common ownership	210	196	-	14
Key management personnel	691	481	2	211
Other related interests	8,267	2,702	560	10,106
	P 9,168	P 3,434	P 578	P 10,647
2016:				
Stockholders	P -	P 55	P 21	P 371
Related parties under common ownership	-	541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	587	4,541
	P 7,332	P 5,074	P 627	P 4,913
2015:				
Stockholders	P -	P 537	P 29	P 426
Related parties under common ownership	40	2,006	35	541
Key management personnel	2	5		4
Other related interests	400	649	103	1,686
	P 442	P 3,197	P 167	P 2,657

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	210	196	-	14
Key management personnel	663	467	2	197
Other related interests	8,267	2,702	560	10,106
	P 9,140	P 3,642	P 578	P 10,633

Related Party Category	Parent Company Issuances	Repayments	Interest Income	Loans Outstanding
2016				
Stockholders	P -	P 55	P 21	P 371
Subsidiaries	1,276	1,276		222
Related parties under common ownership		541	19	-
Key management personnel	1	2	-	1
Other related interests	7,331	4,476	567	4,541
	P 8,608	P 6,350	P 607	P 5,135
2015				
Stockholders	P -	P 536	P 27	P 426
Subsidiaries	5,734	5,012	3	222
Related parties under common ownership	40	2,006	35	541
Key management personnel	-	5	-	2
Other related interests	400	337	105	1,686
	P 6,174	P 8,496	P 170	P 2,877

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

Under current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Group and Parent Company and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group and Parent Company. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2017 and 2016, the Group and Parent Company is in compliance with these regulatory requirements.

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

	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Total outstanding DOSRI loans	P 542	P 587	P 509	P 553
Unsecured DOSRI	71	60	61	49
Past due DOSRI	1		1	
Non-accruing DOSRI	1	-	1	-
Percent of DOSRI loans to total loan portfolio	0.15%	0.19%	0.19%	0.24%
Percent of unsecured DOSRI loans to total DOSRI loans	13.10%	10.22%	11.98%	8.96%
Percent of past due DOSRI loans to total DOSRI	0.13%	0.05%	0.14%	0.04%
Percent of non-accruing DOSRI loans to total DOSRI loans	0.13%	0.05%	0.14%	0.04%

In 2017, the Group recognized impairment loss on certain loans and receivables from DOSRI amounting to P.06 and is recognized as part of Impairment Losses account in the 2017 statement of profit or loss. There are no impairment losses incurred in 2016 and 2015.

28.2 Deposit Liabilities

The summary of the Group's and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2017, 2016 and 2015 are as follows (see Note 17):

	Group			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 480
Associates	32,335	33,069	3	277
Related parties under common ownership	14,007	11,317	9	2,851
Key management personnel	416	373	3	286
Other related interest	213,907	211,728	16	2,294
	P 285,771	P 281,339	P 36	P 6,188
2016:				
Stockholders	P 36,518	P 38,303	P 6	P 1,211
Associates	35,592	35,645	5	51
Related parties under common ownership	1,287,730	1,289,854	15	156
Key management personnel	4,365	4,298	1	213
Other related interests	1,036,115	1,036,476	3	115
	P 2,400,320	P 2,404,576	P 30	P 1,756
2015:				
Stockholders	P 49,923	P 48,383	P 5	P 3,018
Associates	20,098	20,158	5	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,365	4,078	1	176
Other related interests	51,586	54,508	2	601
	P 250,250	P 248,996	P 23	P 6,142

	Parent Company			
Related Party Category	**Deposits**	**Withdrawals**	**Interest Expense**	**Outstanding Balance**
2017:				
Stockholders	P 25,106	P 25,857	P 5	P 483
Subsidiaries	100,523	102,678	1	445
Associates	32,335	32,069	3	277
Related parties under common ownership	9,058	6,474	8	2,740
Key management personnel	416	373	3	286
Other related interests	136,192	134,047	16	2,260
	P 303,630	P 301,498	P 36	P 6,486

Related Party Category	Parent Company Deposits	Withdrawals	Interest Expense	Outstanding Balance
2016:				
Stockholders	P 36,518	P 38,305	P 6	P 1,231
Subsidiaries	974,281	973,728	5	2,598
Associates	35,592	35,645	9	11
Related parties under common ownership	1,287,730	1,289,854	16	156
Key management personnel	4,365	4,298	1	243
Other related interests	1,036,115	1,036,476	3	115
	P 3,374,681	P 3,378,304	P 40	P 4,354
2015:				
Stockholders	P 49,928	P 48,383	P 5	P 5,018
Subsidiaries	1,342,248	1,342,222	6	2,065
Associates	20,098	20,158	3	65
Related parties under common ownership	121,273	121,869	10	2,282
Key management personnel	4,635	4,922	3	176
Other related interests	54,509	54,508	2	476
	P 1,592,690	P 1,592,062	P 29	P 8,082

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company's and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

28.4 Retirement Fund

The Parent Company and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's and RSB's Trust Departments in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2017, 2016 and 2015 as follows:

Nature of Transactions	Group Net Amount of Transaction	Group Outstanding Balance	Parent Company Net Amount of Transaction	Parent Company Outstanding Balance
2017:				
Investment in common shares of Parent Company	(P 6)	P 3,125	(P 6)	P 3,123
Investment in corporate debt securities	(47)	2	(49)	-
Deposits with the Parent Company	226	427	239	311
Fair value gains	1,266	-	1,266	-
Interest income	4	-	4	-

Nature of Transactions	Group		Parent Company	
	Net Amount of Transaction	Outstanding Balance	Net Amount of Transaction	Outstanding Balance
2016				
Investment in common shares of Parent Company	P -	P 1,863	P -	P 1,863
Investment in corporate debt securities	(5)	50	-	49
Deposits with the Parent Company	75	201	72	72
Fair value gains	31	-	31	
Interest income	3	-	3	-
2015:				
Investment in common shares of Parent Company	(P 853)	P 1,863	(P 853)	P 1,863
Investment in corporate debt securities	(5)	50	-	49
Deposits with the Parent Company	19	126	-	-
Fair value losses	(849)	-	(849)	-
Interest income	5	-	3	

The carrying amount and the composition of the plan assets as of December 31, 2017 and 2016 are disclosed in Note 24.2. Investment in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group's and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.7(b)]. Rental expense incurred by the Group related to this lease arrangement is included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2020 after it was renewed in 2015 for another five years. The outstanding payable on the lease contract is presented as part of Accounts payable under Other Liabilities account in the 2017 and 2016 statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2). The outstanding receivable on the lease contracts is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Lease Contract on RSB Corporate Center

In October 2013, the Parent Company and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 and renewable as may be agreed by the parties. The outstanding receivable on the lease contract is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that receivable from the lease contract is fully recoverable.

(c) Service Agreement with RBSC

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(d) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2017	2016	2015
Short-term employee benefits	P 442	P 361	P 338
Post-employment defined benefits	16	15	18
	P 458	P 376	P 356

	Parent Company		
	2017	2016	2015
Short-term employee benefits	P 328	P 271	P 221
Post-employment defined benefits	-	-	-
	P 328	P 271	P 221

29. COMMITMENTS AND CONTINGENCIES

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

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

29.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2017 and 2016:

	Group		Parent Company	
	2017	2016	2017	2016
Trust department accounts	P 91,585	P 94,804	P 64,305	P 61,260
Derivative assets	46,230	32,172	46,230	32,172
Outstanding guarantees issued	41,858	31,828	41,858	31,828
Derivative liabilities	41,822	27,256	41,822	27,256
Unused commercial letters of credit	17,055	10,793	17,055	10,724
Spot exchange sold	6,307	5,455	6,199	5,452
Spot exchange bought	6,204	5,452	6,204	5,455
Inward bills for collection	1,407	540	1,407	2,048
Late deposits/payments received	566	2,169	434	540
Outward bills for collection	133	84	133	84
Others	17	17	17	17

29.2 Poverty Eradication and Alleviation Certificates Bonds

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

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

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

On April 11, 2017, the Parent Company received a copy of the Entry of Judgment stating, among others, that the Decision dated January 13, 2015 and the Resolution dated August 16, 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Parent Company became final and executory on October 20, 2016. The Bureau of Treasury has so far settled P197 of the Parent Company's claim. The balance of P2 is currently the subject of discussion between the Parent Company, the PDIC and the Bureau of Treasury. The PDIC is evaluating, among others, the deed of assignment executed in favor of the Parent Company by a rural bank, which has since then been placed under liquidation, of its PEACe bonds holdings in partial settlement of its past loan obligation.

29.3 Sale of National Steel Corporation (NSC) Plant Asset

In October 2008, Global Steel Philippines (SPV-AMC), Inc. (GSPI) and Global Ispat Holdings (SPV AMC), Inc. (GIHI) (collectively, "Global Steel"), which purchased the Iligan Plant assets of the NSC ("NSC Plant Assets") from the Liquidator in 2004, initiated arbitration proceedings with the Singapore International Arbitration Centre ("SIAC") seeking damages on account of the failure of the Liquidator and the Secured Creditors, including the Bank and RCBC Capital Corporation ("RCAP"), to deliver the NSC Plant Assets free and clear from liens and encumbrance, purportedly depriving them of the opportunity to use the said assets to secure additional loans to fund the operations of the Plant and upgrade the same. On May 9, 2012, the SIAC Arbitral Tribunal rendered a Partial Award in favor of Global Steel in the total amount of (a) US$80, as and by way of lost opportunity to make profits and (b) P1,403, representing the value of the undelivered Billet Shop Land measuring 3.4071 hectares (the "Lost Land Claim").

On appeal, and on July 31, 2014, the Singapore High Court set aside the Partial Award, and subsequently granted the Secured Creditors' application for the lifting of the injunctions issued in 2008 and directed the release of Global Steel's installment payment to the Secured Creditors. Accordingly, the Bank and RCAP received their respective share in the funds previously held in escrow. Moreover, the Secured Creditors may now compel Global Steel to comply with their obligations under the Omnibus Agreement (OMNA)/Asset Purchase Agreement (APA) and take legal action upon Global Steel's failure to do so.

On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court insofar as it set aside (a) the monetary award of US$80 and P1,403 representing lost opportunity to make profit and the value of the Lost Land Claim in favor of Global Steel, respectively, and (b) the deferment of Global Steel's obligation to pay the purchase price of the NSC Plant Assets. The Singapore Court of Appeals ruled that (a) aside from the lack of jurisdiction to rule on the issue of lost opportunity to make profit and absence of evidentiary support for the award, and (b) the premature ruling on the issue of the Lost Land Claim, the dispute relating to Global Steel's payment obligation is an obligation under the OMNA, which is beyond the ambit of arbitration, so that the SIAC Arbitral Tribunal could not properly order the Bank, RCAP and the other Secured Creditors to defer holding Global Steel in default. However, the Singapore Court of Appeals held that the NSC Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

On November 27, 2015, the Singapore Court of Appeals further held that the issue of Global Steel's lost opportunity to make profit cannot be remanded to the Arbitral Tribunal, or to a new Arbitral Tribunal for that matter, to be litigated anew after the setting aside of the Partial Award. The doctrines of res judicata and abuse of process also operated to preclude the reopening of this issue. However, the Singapore Court of Appeals held that the Lost Land Claim may be the subject of a fresh arbitration proceedings before a new arbitral tribunal. The Singapore Court of Appeals likewise awarded litigation costs to the Liquidator but none to the Secured Creditors.

The Parent Company's estimated exposure is approximately P209 in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, while it has a receivable from Global Steel in the amount of P486, taking into consideration the P49 installment payment it had received from the funds previously in escrow. The Parent Company has recognized full impairment loss on the receivable since then, with the gross amount of receivable classified as UDSCL under Loans and Receivable account. The Parent Company's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries), now that all pre-closing taxes on the NSC assets sold to Global Steel, covering the period 1999 to October 14, 2004, are deemed paid, following the denial with finality of the City of Iligan's Petition for Review by the Supreme Court and the issuance of an Entry of Judgment on March 16, 2016, in the case initiated solely by the NSC Liquidator.

In defiance, however, of the aforesaid final and executory ruling, the City of Iligan (a) issued a Notice of Delinquency against NSC, seeking to collect the tax arrears covering the period 1999 to 2016, (b) levied the NSC properties, and (c) set the same for public auction on October 19, 2016, which proceeded even as the local government unit (LGU) received the October 18, 2016 Writ of Execution issued by the Regional Trial Court of Makati City, Branch 57, directing it to (a) comply with the valid and binding Tax Amnesty Agreement dated October 13, 2004, and (b) afford NSC relief from the payment of interests and penalties. On November 3, 2016, the Iligan City police took possession of the NSC Plant compound. On November 4, 2016, the NSC, through the Liquidator, filed an Omnibus Motion praying that (a) the City of Iligan, the Sangguniang Panlungsod and City Treasurer be directed to show cause why they should not be held in contempt, and, (b) the Auction Sale of the NSC properties held on October 19, 2016 be nullified.

In an Order dated April 4, 2017, the Makati Trial Court (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the NSC until the Decision dated October 7, 2011, which held that the NSC pre-closing taxes have been paid, is fully executed and NSC's remaining tax liabilities are correctly computed. The Makati Trial Court likewise (a) directed the Iligan City Treasurer to show cause why she should not be held in contempt of court for holding the auction sale of the NSC Plant Assets without clearing NSC of the pre-closing taxes, and (b) directed the Iligan City Treasurer, among others, to inform the Makati Trial Court of the names of the responsible persons who ordered, aided and abetted her assailed conduct. The LGU and the Iligan City Treasurer, among others, moved the reconsideration of the April 4, 2017 Order.

29.4 Verotel Merchant Services B.V. Case

In 2011, Verotel Merchant Services B.V. (VMS), a Netherlands corporation, and Verotel International Industries, Inc. ("VII"), a Philippine corporation, civilly sued the Parent Company, Bankard, Inc. (Bankard), Grupo Mercarse Corp., CNP Worldwide, Inc. ("CNP") and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US$1.5 million, which the defendants allegedly misappropriated. VMS is an Internet merchant providing on-line adult entertainment and on-line gambling, in addition to the sale of pharmaceuticals over the Internet.

After nearly five years, and after being transferred to a fourth judge, the case went to trial from January 13, 2016 to January 26, 2016, where the issues on prescription, VII's lack of capacity to sue and VMS's lack of standing to sue were reserved for Judge Michael J. Raphael's disposition. On January 27, 2016, the jury rendered a verdict solely in favor of VMS. On March 10, 2016, the Parent Company/Bankard informed Judge Raphael that they will, instead, be filing a motion for judgment notwithstanding verdict (JNOV) and motion for new trial. On April 11, 2016, the Parent Company /Bankard timely filed their motions for JNOV and new trial, and on April 27, 2016, the Parent Company /Bankard likewise timely filed their Reply to the Oppositions filed by VII/VMS.

On May 12, 2016, Judge Raphael heard, and partially granted, the Parent Company/Bankard's Motion for JNOV by deleting the US$7.5 million punitive damages awarded to VMS in the absence of proof that (a) a corporate officer of the Parent Company/Bankard knew of, authorized, or ratified fraudulent acts, and (b) Janet Conway was a managing agent of the Parent Company/Bankard within the meaning of the California Civil Code Section 3294(b). However, Judge Raphael ruled that Conway was an agent of the Parent Company/Bankard for some purposes, and sustained the award of US$1.5 million. Judge Raphael likewise denied the Parent Company/Bankard's Motion for New Trial, and likewise partially granted, plaintiffs' motion for interest and awarded VMS prejudgment interest in the amount of US$0.5 million.

On July 11, 2016, the Parent Company/Bankard timely filed their Notice of Appeal on the partial denial of their Motion for JNOV with the California Court of Appeals, and received a copy of the Notice of Appeal solely filed by VMS on July 8, 2016. On July 21, 2016, the Parent Company/Bankard timely posted the amount of US$3.1 million, as and by way of security to stay the enforcement of the Amended Judgment rendered by Judge Rafael.

On September 8, 2016, VMS filed its unsealed Certificate of Interested Persons, after the California Court of Appeals sustained the Parent Company/Bankard's position that the identities subject of the disclosure was, in fact, a central issue in this case and the appeal, as it relates to whether VMS has standing in this case and is entitled to any damages. In an Order dated, and filed, on November 16, 2016, the California Court of Appeals adopted the briefing sequence proposed by the Parent Company/Bankard, thus, allowing the full ventilation of the case on appeal. In a notice dated January 25, 2017, the California Court of Appeals informed the parties of the filing of the reporter's transcripts.

Subsequently, on March 7, 2017, Judge Raphael granted VMS's motion for cost of proof sanction and directed the Parent Company/Bankard to pay VMS the additional amount of US$0.08 million to cover the cost of (a) the services of expert witnesses and (b) their presentation during the trial, given his ruling that the Parent Company/Bankard unjustifiably denied VMS's request for admission that they failed to comply with MasterCard and VISA association rules. The Parent Company/Bankard timely filed their Notice of Appeal on the aforementioned Order of Judge Raphael but no longer posted any additional filing fees, following VMS's agreement not seek to enforce of the said award during the pendency of the appeal.

The Parent Company/Bankard filed their Revised Opening Brief on their Appeal with the California Court of Appeals on October 2, 2017, raising the following arguments: (a) there is no substantial evidence to establish that the Parent Company/Bankard caused VMS' loss, which arose as a result of the processing of VMS' transactions under and using the merchant ID of another merchant, in a side deal without Bankard's knowledge and consent; (b) there is, therefore, no contract/no processing relationship between VMS and Bankard; (c) there is no substantial evidence to establish that the Parent Company/Bankard caused VMS' loss under agency law, given that (i) Conway could not be Bankard's agent as a matter of law, because she was defrauding Bankard, (ii) plaintiffs did not establish that Conway was an agent of Bankard, (iii) plaintiff did not establish that Conway was a purported agent of Bankard, and, (iv) plaintiffs did not establish that Conway's wrongful conduct was within the scope of her agency; and, (d) the Trial Court abused its discretion in awarding cost of proof sanctions. The Parent Company/Bankard is awaiting the filing of VMS' Reply Brief.

29.5 Applicability of RR 4-2011

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

On April 6, 2015, the Parent Company and other member-banks of the Bankers Association of the Philippines ("BAP") (the "Petitioners"), filed the above-captioned case with Application for TRO and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati ("Makati Trial Court"), wherein the Petitioners assailed the validity of RR 4-2011 on the ground, among others, that (a) RR 4-2011 violates the Petitioners' substantive due process rights; (b) it is not only illegal but also unfair; (c) it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribed method of allocation; (e) it was promulgated without prior consultation, thus, violating the procedural due process rights of the petitioners; and (f) it violated the equal protection clause guaranteed in the Constitution for requiring Banks and other financial institutions to adopt a method of allocation when other institutions and taxpayers were not being required to do so by the Department of Finance ("DOF") and BIR.

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

On June 10, 2015, the RTC-Makati issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Parent Company and other BAP member banks are concerned. The Pre-trial Conference of the case began on August 2, 2016 and continued to August 3, 2017. During the August 3, 2017 hearing, in lieu of trial for the resolution of the case, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017. As of October 5, 2017, the parties to the case have submitted their respective Memorandum.

29.6 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Parent Company, which were eventually transferred to various accounts outside of the Parent Company. In August 2016, the Monetary Board of the BSP approved the imposition of supervisory action on the Parent Company to pay the amount of P1.0 billion in relation to the completed special examination. The Parent Company has fully recognized in the 2016 statement of profit or loss the P1.0 billion supervisory action as part of Miscellaneous Expenses under Other Operating Expenses account (see Note 25.2), and has fully paid the same. The Parent Company does not expect this imposition of supervisory action to affect its ability to perform its existing obligations or unduly hamper its operations.

The AMLC has filed a criminal complaint against former and current officers and employees of the Parent Company for alleged violation of Section 4(f) of RA No. 9160, as amended, otherwise known as the "Anti-Money Laundering Law", in connection with the alleged unauthorized transfer of funds taken from the account of the Bank of Bangladesh with the New York Federal Reserve Bank. The AMLC alleged that each of the respondents supposedly performed or failed to perform an act, which facilitated the crime of money laundering, particularly the remittance and eventual withdrawal of the aforementioned amount from the US Dollar accounts of Enrico T. Vasquez, Michael F. Cruz, Alfred Vergara and Jessie Christopher M. Lagrosas (the "Beneficiary Accounts"), which were then being maintained at the Parent Company's Jupiter Business Center. In particular, the AMLC alleged that each of the respondents failed to effect a hold out on the Beneficiary Accounts despite the supposed "red flags" in the SWIFT payment orders and their supposed receipt on February 9, 2016 of the SWIFT MT999 and MT199 messages of the Bank of Bangladesh requesting for the stop payment of the remittances in issue, resulting in the withdrawals from the said accounts. The AMLC also charged the respondents for their alleged failure to perform Enhanced Due Diligence (EDD), despite the aforementioned "red flags" or alleged irregularities in the remittances.

On March 27, 2017, the former and current officers of the Parent Company filed their Joint Counter-Affidavit, pointing out that: (a) the AMLC failed to establish that they had actual knowledge, as required by the AMLA, as amended, that the US$81 million inward remittance proceeded from an unlawful activity or that the willful blindness doctrine under US jurisprudence is applicable; (b) no predicate crime was established, in the absence of evidence showing the occurrence of the supposed "hacking incident"; and (c) their supposed failure to conduct EDD and the lifting of the hold out on the Beneficiary Accounts cannot amount to facilitation of money-laundering, considering that none of the scenarios required prior to conducting EDD is present, and banks are not legally allowed to effect any unilateral freezing of a depositor's account under the AMLA, as amended, and relevant jurisprudence.

On May 18, 2017, the AMLC filed its Consolidated and Joint Reply Affidavit. On July 10, 2017, the former and current officers of the Parent Company filed their respective Individual Rejoinder Affidavits.

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

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

29.7 Lease Commitments

(a) Parent Company as a Lessor

The Parent Company has entered into various lease contracts related to RSB Corporate Center, an investment property held for rental, with lease terms ranging from one to five years and with monthly rent depending on market price with 5% escalation rate every year. Total rent income earned from these leases amounted to P297, P280, and P218 in 2017, 2016 and 2015, respectively, which are presented as part of Rental under the Miscellaneous Income account in the statements of profit or loss (see Note 25.1). A certain office and parking spaces in RSB Corporate Center are being lease-out to RSB [see Note 28.5 (a)].

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	2017	2016
Within one year	P 375	P 410
After one year but not more than five years	486	861
	P 861	P 1,271

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/business centers for lease periods from one to 25 years. The Group's rental expense related to these leases (included as part of Occupancy and Equipment-related expenses account in the statements of profit or loss) amounted to P977, P742 and P754 in 2017, 2016 and 2015, respectively. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

The future minimum rental payables under these non-cancellable operating leases are as follow:

	Group	Parent Company
2017:		
Within one year	P 811	P 673
After one year but not more than five years	2,640	2,375
More than five years	335	291
	P 3,786	P 3,339

	Group		Parent Company	
2016:				
Within one year	P	853	P	605
After one year but not more than five years		2,602		2,246
More than five years		226		193
	P	3,681	P	3,044

30. EARNINGS PER SHARE

The following shows the profit and per share data used in the basic and diluted EPS computations for the three years presented:

	Group					
	2017		2016		2015	
Basic and Diluted EPS						
a. Net profit attributable to Parent Company's shareholders	P	4,308	P	3,868	P	5,129
Allocated for preferred and Hybrid Tier 1 (HT 1) dividends		-		-		(219)
b. Adjusted net profit before capital redemption		4,308		3,868		4,910
Redemption premium on HT1		-		-		(723)
c. Adjusted net profit	P	4,308	P	3,868	P	4,187
d. Weighted average number of outstanding common stocks		1,400		1,400		1,362
EPS before capital redemption (b/d)	P	3.08	P	2.76	P	3.60
Basic and diluted EPS (c/d)	P	3.08	P	2.76	P	3.07

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

31. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Group and Parent Company:

	Group		
	2017	2016	2015
Return on average equity			
$\frac{\text{Net profit}}{\text{Average total equity}}$	6.72%	6.43%	9.23%
Return on average resources			
$\frac{\text{Net profit}}{\text{Average total resources}}$	0.82%	0.77%	1.09%
Net interest margin			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.25%	4.06%	4.15%
Profit margin			
$\frac{\text{Net profit}}{\text{Revenues}}$	17.15%	16.95%	25.07%
Debt-to-equity ratio			
$\frac{\text{Total liabilities}}{\text{Total equity}}$	7.27	7.39	7.88
Resources-to-equity ratio			
$\frac{\text{Total resources}}{\text{Total equity}}$	8.27	8.39	8.88
Interest rate coverage			
$\frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$	1.73	1.50	1.81

	Parent Company		
	2017	2016	2015
Return on average equity			
$\frac{\text{Net profit}}{\text{Average total equity}}$	6.74%	6.43%	9.34%
Return on average resources			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.02%	0.93%	1.30%
Net interest margin			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	3.85%	3.47%	3.62%
Profit margin			
$\frac{\text{Net profit}}{\text{Revenues}}$	22.34%	22.67%	32.52%

	Parent Company		
	2017	2016	2015
Debt-to-equity ratio			
Total liabilities / Total equity	5.60	5.73	6.40
Resources-to-equity ratio			
Total resources / Total equity	6.60	6.73	7.40
Interest rate coverage			
Earnings before interest and taxes / Interest expense	1.95	1.60	2.06

32. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Group's and Parent Company's 2017 liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (see Note 18)		Bonds Payable (see Note 19)		Total Financing Activities	
	Group	Parent	Group	Parent	Group	Parent
Balance as of January 1, 2017	P 37,643	P 31,712	P 41,595	P 41,595	P 79,238	P 73,307
Cash flow from financing activities:						
Availments	20,561	15,477	-	-	20,561	15,477
Payments/redemption	(14,472)	(10,783)	(13,687)	(13,687)	(28,159)	(24,470)
Non-cash financing activities:						
Foreign exchange losses	235	199	118	118	353	317
Amortization of premium	-	-	34	34	34	34
	P 43,967	P 36,605	P 28,060	P 28,060	P 72,027	P 64,665

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Report of Independent Auditors to Accompany the Securities and Exchange Commission Schedules File Separately from the Basic Financial Statements

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Rizal Commercial Banking Corporation and subsidiaries (the Group) for the year ended December 31, 2017, on which we have rendered our report dated February 26, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see SEC Supplementary Schedules) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, as amended, and is not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

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

[redacted]

February 26, 2018

ANNEX "B-2"

Rizal Commercial Banking Corporation and Subsidiaries
SEC Supplementary Schedules
December 31, 2017

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

Instruments	Number of shares or principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on the market quotation at balance sheet date	Income received and accrued
Financial Assets at Fair Value Through Profit or Loss	P			
Government securities	P 4,928,834,568	P 4,396,423,285	P 4,386,429,795	P 108,419,598
Corporate debt securities	464,280,201		465,631,074	98,231,895
Equity securities	1,581,113,366	1,684,952,309	1,624,952,329	
Derivative financial assets	1,160,997,606	5,118,863,142	1,118,862,142	510,545,548
		7,138,233,739	7,591,835,929	646,097,411
Financial Assets at Fair Value Through Other Comprehensive Income				
Quoted equity securities	59,357,050 shares	3,632,989,048	3,618,989,648	43,624,734
Unquoted equity securities	226,970,711 shares	1,710,519,939	1,744,575,939	185,977,743
		5,343,573,586	5,363,575,586	229,604,477
Investment Securities at Amortized Cost				
Government securities	P 59,344,555,173	59,044,335,173	35,477,152,776	1,770,517,216
Corporate debt securities	20,335,672,065	20,933,572,255	20,518,845,251	966,272,851
		59,977,707,228	55,995,998,061	2,136,590,065
		P 72,478,508,549	P 49,951,442,423	P 3,017,294,979

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

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Non Current	Balance at end of period
Rizal Commercial Banking Corporation							
Loans Receivable							
RCBC Realty Corp.	₱ -	₱ -	₱ -	₱		Not applicable	₱
Pan Malayan Management and Investment Corp	371,250,000	-	55,000,000			Not applicable	316,250,000
Malayan Colleges Inc		-	-	-		Not applicable	-
RCBC Savings Bank							
Loans Receivable							
Employee Loans	3,331,144	1,521,090	-	-		Not applicable	4,852,234
RCBC Capital Corporation							
Loans Receivable							
Employee Loans	655,020	2,109,905	1,189,500	-		Not applicable	1,572,425
RCBC Leasing and Finance Corp							
Loans Receivable							
Employee Loans	80,225	461,571	80,226			Not applicable	451,577

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

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Classification		Balance at end of period
			Amounts collected	Amounts written off	Current	Not Current	

Not applicable

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

Description		Beginning Balance		Additions at cost	Deductions						Ending Balance
						Charged to cost and expenses		Charged to other accounts		Other changes additions (deductions)	
Goodwill	P	425,985,979	P		P	-	P	-	P	P	425,985,979
Branch licenses		1,004,700,961				4,700,961		-			1,000,000,000
Software – net*		959,755,127		304,338,849		286,985,526		-			977,108,450

*Net of allowance for impairment

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

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long term debt" in related balance sheet	Amount shown under caption "Long Term Debt" in related balance sheet
Rizal Commercial Banking Corporation			
US$ 243,000,000 Senior Bonds Interest Rate: 4.125% Fixed Rate Maturity Date: 1/22/2020 Number of periodic installments: Not applicable	USD 243,000,000	Not applicable	P 12,082,496,751
US$ 350,000,000 Senior Notes Interest Rate: 3.45% Fixed Rate Maturity Date: 2/2/2021 Number of periodic installments: Not applicable	USD 350,000,000	Not applicable	P 17,977,510,255
P 2,502,000,000 Long Term Negotiable Certificate of Deposit Interest Rate: 3.75% Fixed Rate Maturity Date: 2/11/2023 Number of periodic installments: Not applicable	P 2,502,000,000	Not applicable	P 2,502,000,000
P 2,150,000,000 Long Term Negotiable Certificate of Deposit Interest Rate: 4.125% Maturity Date: 6/18/2020 Number of periodic installments: Not applicable	P 2,150,000,000	Not applicable	P 2,150,000,000
P 2,860,250,000 Long Term Negotiable Certificate of Deposit Interest Rate: 3.25% Maturity Date: 5/14/2025 Number of periodic installments: Not applicable	P 2,860,250,000	Not applicable	P 2,860,000,000
P 2,040,000,000 Long Term Negotiable Certificate of Deposit Interest Rate: 0.00% Maturity Date: 5/14/2019 Number of periodic installments: Not applicable	P 2,040,000,000	Not applicable	P 2,040,000,000
P 10,000,000,000 Tier 2 Unsecured Subordinated Notes Interest Rate: 5.375% Maturity Date: 9/27/2029 Number of periodic installments: Not applicable	P 10,000,000,000	Not applicable	P 9,968,462,284

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

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

Not applicable

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

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

Not applicable

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

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Number of shares held by directors, officers and employees
Preferred Shares [illegible] non-voting, non-cumulative, fully participating convertible to common shares	200,000,000	276,[illegible]			
Common Shares[1]	1,400,000,000	1,399,[illegible]	-	999,[illegible]	[illegible]

1 On July 8, 2011, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares in 2011.

On September 30, 2011, an additional [illegible] preferred shares with P10 par value (from [illegible]) were converted into [illegible] common shares having P10 par value, and [illegible] the difference as additional paid-in capital in the amount of P[illegible].

On February 21, 2012, preferred shares amounting to P1,[illegible] or 1[illegible] shares were converted to 5[illegible] common shares.

On March 1, 2012, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

On March 30, 2012, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

On July 20, 2012, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

1 On June 28, 2010, the Parent Company's stockholders owning or representing more than 2/3 of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their [illegible] held on May 2[illegible], 2010, the proposed increase in authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or purchase any shares of stock [illegible] Articles of Incorporation. The increase in authorized capital stock of the Parent Company was approved by BSP and SEC on August [illegible], 2011 and September 1[illegible], 2011, respectively, totalling 1,[illegible] shares.

On March [illegible], 2011, the Parent Company issued [illegible] common shares, comprised of [illegible] treasury shares (with total cost of P[illegible]) and [illegible] unissued shares (with total par value of P[illegible]) to International Finance Corporation for a total consideration of P[illegible], representing [illegible] ownership interest. The issuance resulted to recognition of APIC amounting to P1,[illegible].

Also, on July 8, 2011, the Parent Company issued [illegible] common shares from the treasury shares (with total cost of P[illegible]) and [illegible] common shares (with total par value of P[illegible]) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P[illegible].

On July 8, 2011, the Parent Company issued [illegible] common shares from the treasury shares (with total cost of P[illegible]) and [illegible] common shares (with total par value of P[illegible]) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P[illegible].

On July 8, 2011, the Parent Company issued [illegible] common shares from the treasury shares (with total cost of P[illegible]) and [illegible] common shares (with total par value of P[illegible]) from unissued portion of increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15% of the outstanding common stock. The issuance resulted to recognition of APIC amounting to P[illegible].

On March [illegible], 2013, the Parent Company issued [illegible] common shares from the unissued capital stock (with total cost of P[illegible]) to [illegible] that is equivalent to approximately [illegible]. The issuance resulted to recognition of APIC amounting to P[illegible].

On April [illegible], 2013, the Parent Company issued [illegible] common shares from the unissued capital stock (with total cost of P[illegible]) to International Finance Corporation that is equivalent to approximately [illegible].
The issuance resulted to recognition of APIC amounting to P[illegible].

On September 30, 2014, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

On May [illegible], 2015, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

On April [illegible], 2015, the Parent Company issued [illegible] common shares to Cathay Life Insurance Corporation at P[illegible] per share for a total issue price of P[illegible]. The issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P[illegible] net of [illegible] transaction costs of P[illegible].

On May [illegible], 2016, preferred shares amounting to P[illegible] or [illegible] shares were converted to [illegible] common shares.

On February [illegible], 2017, preferred shares amounting to P[illegible] or [illegible] shares were converted into [illegible] common shares.

On March [illegible], 2017, preferred shares amounting to P[illegible] or [illegible] shares were converted into [illegible] common shares.

On September [illegible], 2017, preferred shares amounting to P[illegible] or [illegible] shares were converted into [illegible] common shares.

RIZAL COMMERCIAL BANKING CORPORATION
Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City

Parent Company Reconciliation of Retained Earnings Available for Dividend Declaration
December 31, 2017
(Amounts in Millions of Philippine Pesos)

Unappropriated Retained Earnings at Beginning of Year		P 24,401
Prior Years' Outstanding Reconciling Item, net of tax		
Share in net earnings of subsidiaries and associates		(8,778)
Deferred tax assets		(869)
Fair value gain on financial assets at fair value through profit or loss		(279)
		(9,926)
Unappropriated Retained Earnings at Beginning of Year, Dividend Declaration at Beginning of Year, As Adjusted		14,475
Net Profit Realized during the Year		
Net profit per audited financial statements		4,308
Non-actual/unrealized income		
Share in net earnings of subsidiaries and associates		(2,110)
Deferred tax income		(73)
Fair value gain on financial assets at fair value through profit or loss		19
		2,144
Other Transactions During the Year		
Dividends declared	(P 773)	
Dividends received from subsidiaries and associates	319	
Appropriation of retained earnings to trust reserves	(16)	(470)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		P 16,149

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

<u>2011 - P3,850,000,000 Long Term Negotiable Certificates of Time Deposits</u>

Net Proceeds: P3,389,382,206 (Issue Price: 100.00% for P2,033,210,000 notes and 74.05% for P1,816,790,000 notes)

Use of Proceeds: To be used for general banking and re-lending purposes.

<u>2012 - US$ 275,000,000 Senior Note</u>

Gross Proceeds: US$275,000,000 (Issue Price: US$200,000,000 @ 100.00% and US$75,000,000 @ P102)

Related Expenses: US$1,193,825

Use of Proceeds: To be used for general banking and re-lending purposes.

<u>2013 - P5,000,000,000 Long Term Negotiable Certificates of Time Deposit (LTNCD)</u>

Net Proceeds: P4,626,717,247.90 (Issue Price: 100.50% for P2,860,260,000 Fixed Rate LTNCDs and 82.5585% for P2,139,740,000 Zero Coupon LTNCDs)

Use of Proceeds: To expand the Bank's long-term deposit base and support long-term asset growth and for other general funding purposes.

<u>2014 - P2,300,000,000 Long Term Negotiable Certificates of Time Deposit (LTNCD)</u>

Gross Proceeds: P2,300,000,000 (Issue Price: 100.00%)

Use of Proceeds: To expand the Bank's long-term deposit base and support long-term asset growth and for other general funding purposes

<u>2014 - P10,000,000,000 Tier 2 Unsecured Subordinated Notes</u>

Gross Proceeds: P10,000,000,000 (Issue Price: 100.00%)

Use of Proceeds: To strengthen the Bank's capital base and capital adequacy ratio (CAR) and support asset growth as well as expand the bank's long term funding base

<u>2015 - US$ 243,000,000 Senior Note</u>

Gross Proceeds: US$243,000,000 (Issue Price: US$ 200,000,000 @ 100.00% and US$43,000,000 @ P103)

Related Expenses: US$1,400,857

Use of Proceeds: To be used for general banking and re-lending purposes.

<u>2016 - US$ 320,000,000 Senior Note</u>

Gross Proceeds: US$320,000,000 (Issue Price: US$ 320,000,000 @ 100.00%)

Related Expenses: US$1,042,758

Use of Proceeds: To be used for general banking and re-lending purposes.

<u>2017 - P2,502,000,000 Long Term Negotiable Certificate of Deposit</u>

Gross Proceeds: P2,502,000,000 (Issue Price: P2,502,000,000 @ 100.00%)

Related Expenses: P15,763,828

Use of Proceeds: To be used for general funding purposes

Rizal Commercial Banking Corporation and Subsidiaries Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2017				
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans	✓		
	Amendments to PFRS 1: Deletion of Short-term Exemptions	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions (b) *effective January 1, 2018*			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Remeasurement of Previously Held Interests in a Joint Operation (*effective January 1, 2019*)			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, *Financial Instruments*, with PFRS 4, *Insurance Contracts* (b) *effective January 1, 2018*			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets (d)	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition (d)	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures (*effective when PFRS 9 is first applied*)	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (a) (2009, 2010 and 2013 versions)	✓		
	Financial Instruments (2014) (b) (*effective January 1, 2018*)			✓
	Amendments to PFRS 9: Prepayment Features with Negative Compensation (b) (*effective January 1, 2019*)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *(b) effective date deferred indefinitely)*			✓
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception	✓		
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*	✓		
	Amendment to PFRS 11: Remeasurement of Previously Held Interests in a Joint Operation *(b) (effective January 1, 2019)*			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 12: Investment Entities – Applying the Consolidation Exception	✓		
	Amendments to PFRS 12: *Scope Clarification* on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers *(b) (effective January 1, 2018)*			✓
PFRS 16	Leases *(b) (effective January 1, 2019)*			✓
PFRS 17	Insurance Contracts *(b) (effective January 1, 2021)*			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - *Deferred Tax: Recovery of Underlying Assets*	✓		
	Amendments to PAS 12 - Recognition of Deferred Tax Assets for Unrealized Losses	✓		
	Amendments to PAS 12 - Tax Consequences of Dividends *(b) (effective January 1, 2019)*			✓
PAS 16	Property, Plant and Equipment	✓		
	Amendments to PAS 16: Bearer Plants	✓		
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendment to PAS 23: Eligibility for Capitalization (b) *effective January 1, 2019)*			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Revised)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (b) *effective date deferred indefinitely)*			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception	✓		
	Amendment to PAS 28: Clarification on Fair Value through Profit or Loss Classification (b) *effective January 1, 2018)*			✓
	Amendment to PAS 28: Long-term Interest in Associates and Joint Venture (b) *effective January 1, 2019)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Reclassification to and from Investment Property (b) *effective January 1, 2018)*			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities (c)	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (c)	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9 (d)	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction (c)	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners (c)	✓		
IFRIC 18	Transfers of Assets from Customers (c)	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments (c)	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine (c)	✓		
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration (b) *(effective January 1, 2018)*			✓
IFRIC 23	Uncertainty Over Income Tax Treatments (b) *(effective January 1, 2019)*			✓
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders (c)	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services (c)	✓		
SIC-32	Intangible Assets - Web Site Costs (c)	✓		

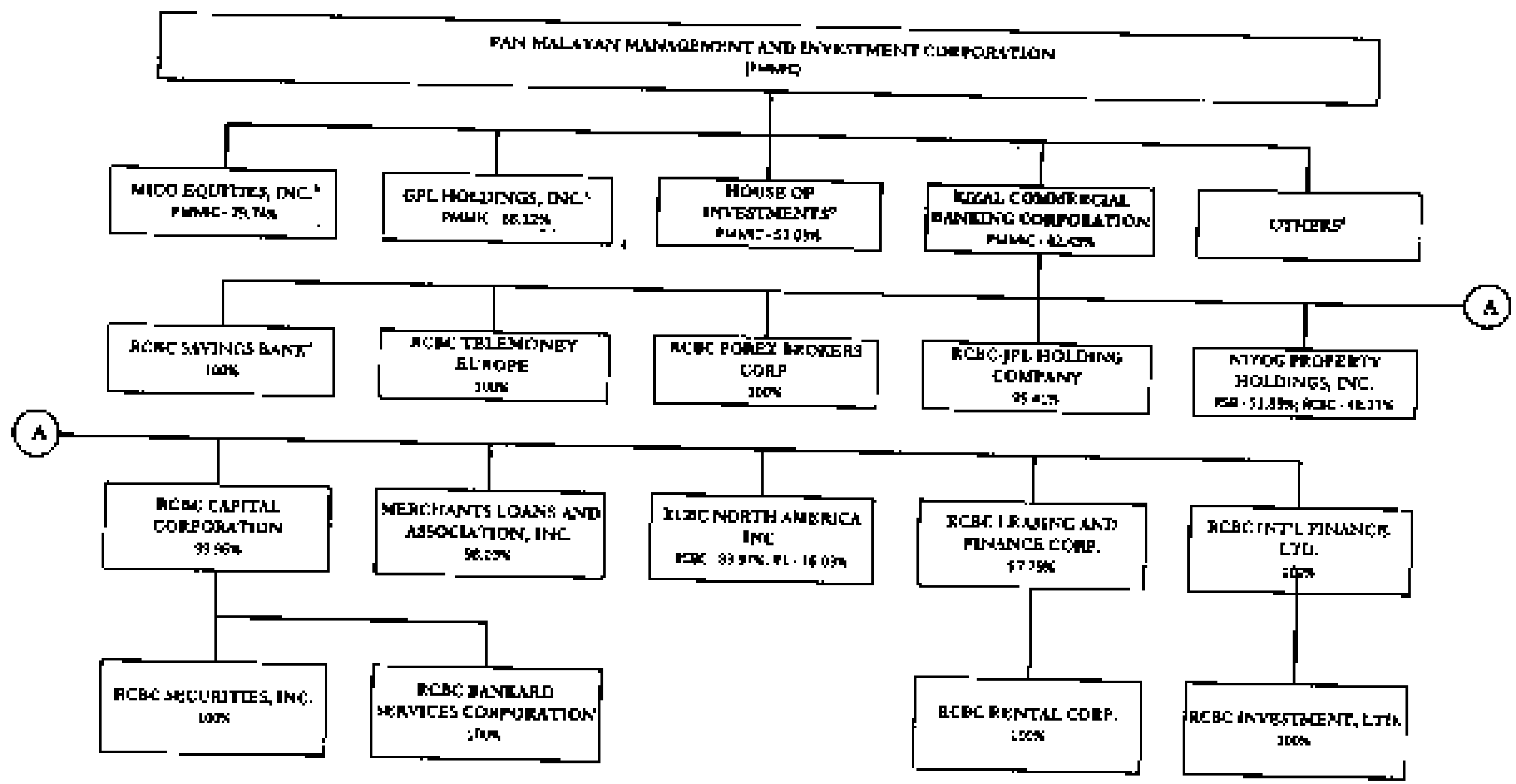
(a) PFRS 9 (2009, 2010 and 2013 versions) is effective January 1, 2018 but the Group opted to early adopt with January 1, 2014 as the date of initial application.

(b) These standards will be effective for periods subsequent to 2017 and are not early adopted by the Group.

(c) These standards have been adopted in the preparation of financial statements but the Group has no significant transactions covered in both years presented.

(d) PAS 39 and all related amendments, improvements and interpretations thereto were applied by the Group prior to January 1, 2014. These were superseded by PFRS 9 (2009, 2010 and 2013 versions) effective January 1, 2014 except for the principles relating to impairment and hedge accounting.

Rizal Commercial Banking Corporation and Subsidiaries
Map Showing the Relationships Between and Among the RCBC and Its Related Parties
December 31, 2017



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

	2017	2016	2015
Return on average equity	**6.72%**	6.42%	9.23%
Return on average resources	**0.82%**	0.77%	1.09%
Net interest margin	**4.25%**	4.06%	4.15%
Profit margin	**17.15%**	16.95%	23.07%
Capital adequacy ratio	**15.46%**	16.16%	15.72%
Cost to income ratio	**70.90**	75.05	67.74
Liquidity ratio	**0.93**	0.56	0.41
Debt-to-equity ratio	**7.27**	7.39	7.88
Resources-to-equity ratio	**8.27**	8.39	8.88
Interest rate coverage ratio	**1.73**	1.50	1.81

Report of Independent Auditors

The Board of Directors
RCBC Savings Bank, Inc.
(A Wholly Owned Subsidiary of
Rizal Commercial Banking Corporation)
RCBC Savings Bank Corporate Center
26th and 25th Streets, Bonifacio Global City
Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of RCBC Savings Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements takes as a whole. As discussed in Note 22 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 and RR No. 19-2011 require the information to be presented in the notes to the 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 also not a required disclosure under the Securities Regulation Code Rule 68, as amended, of the Philippine Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

[redacted]

February 19, 2016

Report of Independent Certified Public Accountants to Accompany Income Tax Return

The Board of Directors
RCBC Savings Bank, Inc.
(A Wholly Owned Subsidiary of
Rizal Commercial Banking Corporation)
RCBC Savings Bank Corporate Center
26^{th} and 25^{th} Streets, Bonifacio Global City
Taguig City

We have audited the financial statements of RCBC Savings Bank, Inc. (the Bank) for the year ended December 31, 2017, on which we have rendered the attached report dated February 19, 2018.

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

PUNONGBAYAN & ARAULLO

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

[redacted]

February 19, 2018

Supplemental Statement of Independent Auditors

The Board of Directors
RCBC Savings Bank, Inc.
(A Wholly Owned Subsidiary of
Rizal Commercial Banking Corporation)
RCBC Savings Bank Corporate Center
26th and 25th Streets, Bonifacio Global City
Taguig City

We have audited the financial statements of RCBC Savings Bank, Inc. (the Bank) for the year ended December 31, 2017, on which we have rendered the attached report dated February 19, 2018.

In compliance with the Securities Regulation Code Rule 68, as amended, we are stating that the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock as of December 31, 2017, as disclosed in Note 20 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

[redacted]

February 19, 2018

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	7	**P 4,457,783,721**	P 4,146,105,882
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**10,332,553,346**	14,712,658,644
DUE FROM OTHER BANKS	7	**2,153,704,387**	1,994,411,693
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	7	**2,313,002,922**	2,958,465,090
TRADING AND INVESTMENT SECURITIES - Net	8	**11,507,055,935**	6,881,206,226
LOANS AND RECEIVABLES - Net	9	**82,206,531,110**	72,512,195,758
INVESTMENTS IN SUBSIDIARIES - Net	10	**205,611,977**	155,140,355
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**1,057,519,864**	1,114,831,988
INVESTMENT PROPERTIES - Net	12	**1,353,306,060**	1,124,068,737
ASSETS HELD-FOR-SALE AND DISPOSAL GROUP - Net	13	**662,884,186**	1,875,562,556
DEFERRED TAX ASSETS	22	**829,385,833**	744,234,865
OTHER RESOURCES - Net	13	**792,127,796**	701,835,133
TOTAL RESOURCES		**P 117,871,467,137**	P 108,920,716,927
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14	**P 101,684,558,574**	P 94,760,715,397
MANAGER'S CHECK PAYABLE	16	**740,530,829**	521,972,467
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	17	**871,001,380**	1,039,359,692
OTHER LIABILITIES	18	**2,595,451,920**	2,054,022,379
Total Liabilities		**105,891,542,703**	98,376,069,935
EQUITY			
Capital stock	20	**3,087,216,300**	3,087,216,300
Additional paid-in capital	20	**102,783,700**	102,783,700
Revaluation reserves	20	**(19,041,261)**	(104,080,383)
Reserve for trust business	24	**42,092,142**	36,788,410
Surplus	20	**8,766,873,553**	7,421,938,965
Total Equity		**11,979,924,434**	10,544,646,992
TOTAL LIABILITIES AND EQUITY		**P 117,871,467,137**	P 108,920,716,927

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
INTEREST INCOME			
Loans and receivables	9	P 6,308,195,299	P 5,754,894,522
Trading and investment securities	8	386,826,907	327,350,276
Due from BSP and other banks	7	74,197,519	7,958,684
Loans and receivables arising from reverse repurchase agreement	7	17,857,639	16,094,444
		6,787,077,364	6,106,297,926
INTEREST EXPENSE			
Deposit liabilities	14	1,558,950,516	1,248,052,887
Bills payable	15	1,563,117	20,947,290
		1,560,513,633	1,269,000,177
NET INTEREST INCOME		5,226,563,731	4,837,297,749
IMPAIRMENT LOSSES	9, 12	793,335,334	807,718,818
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		4,433,228,397	4,029,578,931
OTHER OPERATING INCOME			
Service charges, commissions and fees	2	762,092,271	944,479,479
Gain on sale of assets	8, 9, 11, 12, 13	90,325,959	120,618,150
Share in net income of subsidiaries	10	72,124,273	7,326,646
Other income	19	87,156,656	69,886,584
		1,011,699,159	1,142,310,859
OTHER OPERATING EXPENSES			
Salaries and employee benefits	21	1,271,351,662	1,181,837,270
Occupancy	26	512,513,047	497,059,606
Depreciation and amortization	11, 12	458,566,034	424,043,497
Taxes and licenses	12	413,876,439	445,075,912
Insurance		362,953,207	334,072,834
Litigation		108,240,253	199,276,558
Loss on sale of securities	8	-	178,251,640
Miscellaneous	19	935,770,750	877,631,065
		4,063,271,392	4,137,248,382
PROFIT BEFORE TAX		1,381,656,164	1,034,641,408
TAX EXPENSE	22	31,417,844	29,500,798
NET PROFIT		P 1,350,238,320	P 1,005,140,610

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Note		2017		2016
NET PROFIT		**P**	**1,350,238,320**	P	1,005,140,610
OTHER COMPREHENSIVE INCOME					
Remeasurements of post-employment defined benefit plan	21		**85,039,122**		30,004,844
TOTAL COMPREHENSIVE INCOME		**P**	**1,435,277,442**	P	1,035,145,454

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional Paid In Capital	Revaluation Reserves	Reserve for Trust Business	Surplus	Total
Balance at January 1, 2017		P 3,087,216,300	P 102,783,700	(P 104,080,383)	P 36,788,410	P 7,421,938,965	P 10,544,646,992
Transfer to reserve for trust business	24	-	-	-	5,303,732	(5,303,732)	-
Total comprehensive income for the year	21	-	-	85,039,122	-	1,350,238,320	1,435,277,442
Balance at December 31, 2017	20	**P 3,087,216,300**	**P 102,783,700**	**(P 19,041,261)**	**P 42,092,142**	**P 8,766,873,553**	**P 11,979,924,434**
Balance at January 1, 2016		P 3,087,216,300	P 102,783,700	(P 134,085,227)	P 31,614,365	P 6,421,972,400	P 9,509,501,538
Transfer to reserve for trust business	24	-	-	-	5,174,045	(5,174,045)	-
Total comprehensive income for the year	21	-	-	30,004,844	-	1,005,140,610	1,035,145,454
Balance at December 31, 2016	20	P 3,087,216,300	P 102,783,700	(P 104,080,383)	P 36,788,410	P 7,421,938,965	P 10,544,646,992

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,381,656,164	P 1,034,641,408
Adjustments for:			
Interest income	7, 8, 9	(6,787,077,364)	(6,106,297,926)
Interest received		6,672,834,693	6,030,358,708
Interest paid		(1,502,169,622)	(1,188,734,776)
Interest expense	14, 15	1,560,513,633	1,269,000,177
Impairment losses	9, 12	793,335,334	807,718,818
Depreciation and amortization	11, 12	458,566,034	424,043,497
Gain on sale of assets	8, 9, 11, 12, 13	(90,325,959)	(120,618,150)
Share in net income of subsidiaries	10	(72,124,273)	(7,326,646)
Operating profit before working capital changes		2,415,208,640	2,142,785,110
Decrease in financial assets at fair value through profit or loss		-	11,839
Increase in loans and receivables		(9,911,664,373)	(9,408,709,549)
Decrease (increase) in investment properties		(746,257,011)	183,383,529
Decrease (increase) in assets held-for-sale and disposal group		1,212,678,370	(253,796,710)
Increase in other resources		(219,634,557)	(1,037,251,576)
Increase in deposit liabilities		6,923,843,177	14,785,909,199
Increase in manager's check payable		218,558,362	32,393,360
Increase (decrease) in accrued interest, taxes and other expenses		(159,004,488)	23,186,895
Increase in other liabilities		628,514,769	696,819,939
Cash from operations		362,242,889	7,164,732,036
Cash paid for income taxes		(116,461,389)	(114,087,056)
Net Cash From Operating Activities		245,781,500	7,050,644,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities at amortized cost	8	(5,810,114,565)	(715,359,120)
Proceeds from maturity of investment securities at amortized cost	8	1,019,031,664	1,076,429,018
Acquisitions of bank premises, furniture, fixtures and equipment	11	(245,597,641)	(223,675,048)
Proceeds from redemption and sale of investment securities at amortized cost	8	168,866,772	3,147,248,052
Proceeds from disposals of bank premises, furnitures, fixtures and equipment	11	45,782,686	11,872,979
Dividend received	10	21,652,651	72,175,500
Net Cash From (Used in) Investing Activities		(4,800,378,433)	3,368,691,381
CASH FLOWS FROM FINANCING ACTIVITIES	15		
Proceeds from bills payable		820,000,000	67,980,981,051
Payments of bills payable		(820,000,000)	(67,980,981,051)
Cash Used in Financing Activities		-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(4,554,596,933)	10,419,336,361
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash and other cash items		4,146,105,882	3,943,015,524
Due from Bangko Sentral ng Pilipinas		14,712,658,644	7,523,946,480
Due from other banks		1,994,411,693	1,925,342,944
Loans and receivables arising from reverse repurchase agreement		2,958,465,090	-
		23,811,641,309	13,392,304,948
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash and other cash items		4,457,783,721	4,146,105,882
Due from Bangko Sentral ng Pilipinas		10,332,553,346	14,712,658,644
Due from other banks		2,153,704,387	1,994,411,693
Loans and receivables arising from reverse repurchase agreement		2,313,002,922	2,958,465,090
		P 19,257,044,376	P 23,811,641,309

See Notes to Financial Statements.

RCBC SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

RCBC Savings Bank, Inc. (the Bank) was incorporated in the Philippines on January 15, 1996. The Bank provides traditional consumer banking products and services such as deposit products, home mortgage loans, auto loans and personal loans. The Bank has 154 banking offices nationwide.

The Bank is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Bank), an entity incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. 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. RCBC is a publicly listed bank at the Philippine Stock Exchange. The Parent Bank is a 42.45% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies, with registered business address located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank 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 Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered office, which is also its principal place of business, is located at RCBC Savings Bank Corporate Center, 26th and 25th Streets, Bonifacio Global City, Taguig City.

The registered office of RCBC, which is also its principal place of business, is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Bank's Board of Directors (BOD) on February 19, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

These financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, 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 Bank presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

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

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency, the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which are expressed in United States (US) dollar as its functional currency are translated to Philippine pesos based on Philippine Dealing System closing rates (PDSCR) at the end of the reporting period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses).

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Bank

The Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 12	:	Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale

Discussed below and in the next page are the relevant information about these amendments and improvements.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including:

- changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and,

- a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

The application of this amendment did not result in additional disclosure in the Bank's financial statements as it has no outstanding liabilities arising from financing activities as of December 31, 2017 and 2016.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*. The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of this amendment has had no impact on the Bank's financial statements.

(iii) Annual Improvements to PFRS (2014-2016) Cycle on PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests Classified as Held for Sale.* The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale. The application of this amendment has no significant impact the Bank's financial statements as the Bank did not present anymore the financial information for its interests in other entity classified as held for sale.

(b) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, amendments to and interpretations of existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states 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 amendment provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 (2009, 2010 and 2013 versions – herein referred to as PFRS 9). In addition to the principal classification categories for financial assets and financial liabilities which were early adopted by the Bank on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

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

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

In view of the Bank's early adoption of PFRS 9, management has conducted an assessment and comprehensive study of the Bank's financial assets and liabilities as at December 31, 2017, which has been limited to the facts and circumstances existing at that date. Management has determined the impact of PFRS 9 (2014) on the financial statements as indicated below:

- Debt securities held for collecting contractual cash flows solely for payment of principal and interest (SPPI) will continue to be classified as investment securities at amortized cost.

- In applying the expected credit loss (ECL) methodology of PFRS 9 (2014), the Bank has adopted an ECL model for its loans and receivables in accordance with the prescription of the standard. On the other hand, ECL on government bonds and corporate bonds classified as financial asset at amortized cost shall be measured using 12-month ECL as these financial assets are assessed to have low credit risk, considering their respective credit ratings. Management has assessed that the application of the ECL model will result in an increase in the required allowance for impairment of certain financial instruments as at the beginning of the next reporting period and in impairment losses in that period as compared with the amount that would have been recognized under the impairment provisions of PAS 39.

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

Based on an assessment of the Bank's revenue streams as at December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to its lending and investing activities which generate interest income, loan origination fees and service charges and penalties. Except for service charges and penalties, substantial amount of the Bank's revenues are generated from financial instruments which are outside the scope of PFRS 15.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Management has initially assessed that this amendment has no material impact on the Bank's financial statements.

(v) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income. Management is currently assessing the impact of this new standard on the Bank's financial statements.

(vi) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases.*

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

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

Management is currently assessing the impact of this new standard on the Bank's financial statements.

(vii) 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 Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new standard on the Bank's financial statements.

(viii) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019. Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

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

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when 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 Bank obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Bank obtains joint control of the business.

(ix) 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 Associates 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 of 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.

2.3 Separate Financial Statements and Investments in Subsidiaries

These financial statements are prepared as the Bank's separate financial statements. As allowed under existing financial reporting standards, the Bank has not presented consolidated financial statements because it is itself a wholly owned subsidiary of RCBC, which presents consolidated financial statements available for public use that comply with PFRS. Moreover, the Bank's debt or equity securities are not traded in organized financial market and the Bank is not in the process of filing its financial statements with securities commissions or other regulatory organization for the purpose of issuing any class of instruments in an organized financial market.

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

Any goodwill arising from the acquisition of investments in subsidiaries, representing the excess of the acquisition costs over the fair value of the Bank's share in the identifiable net assets of the acquired subsidiaries or associates at the date of acquisition, is included in the amount recognized as investments in subsidiaries.

The Bank reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above.

The Bank's investments in subsidiaries are initially recognized at cost and subsequently accounted for in these 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 Bank'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 Income or Losses of Subsidiaries account in the statement of profit or loss. Dividends received are accounted for as reduction in the carrying value of the investments.

Changes resulting from other comprehensive income of the subsidiaries or items recognized directly in the subsidiaries' equity are recognized in other comprehensive income or equity of the Bank, as applicable. However, when the Bank's share of losses in subsidiaries equals or exceeds its interest in the subsidiaries, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiaries. If the subsidiaries subsequently report 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 previously not been recognized.

Impairment loss is provided when there is objective evidence that the investments in subsidiaries will not be recovered (see Note 2.18).

2.4 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of an 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.

Regular purchases and sales of financial assets are recognized on their settlement date.

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables Arising from Reverse Repurchase Agreement, Loans and Receivables, Security deposits under Other Resources account and Investment securities at amortized cost under Trading and Investment Securities account.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash and other cash items and unrestricted balances due from BSP and due from other banks and loans and receivables arising from reverse repurchase agreement. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2017 and 2016, the Bank has not made such designation.

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

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Bank has chosen to designate as at FVPL at initial recognition, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Bank designates an equity investment that is not held for trading as at fair value through other comprehensive income (FVOCI) at initial recognition. The Bank's financial assets at FVPL include government securities and corporate bonds which are held for trading purposes.

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 Bank 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 are included in Trading gains or losses under Other Operating Income or Expenses account in the statement of profit or loss in the period in which they arise, while realized gains or losses arising from disposals of these instruments are recognized as Gain or Loss on Sale of Assets in 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 as part of Other Income under Other Operating Income account.

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-per-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has not designated any equity instruments as at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account.

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous under Other Operating Income account, when the Bank's right to receive dividends is established in accordance with PAS 18, unless the dividends clearly represent recovery of a part of the cost of the investment.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets (i) from amortized cost to 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 Bank's business model must be effected before the date of the reclassification which pertains to the beginning of the next reporting period following the change in the business model.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss (see Note 2.14).

(b) *Impairment of Financial Assets*

The Bank 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 Bank 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 Bank 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.

For financial assets classified and measured at amortized cost, the Bank 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 Bank 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 Bank 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 grading process of the Bank that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). These 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 Bank to reduce any differences between loss estimates and actual loss experience.

When possible, the Bank 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. Management continuously reviews restructured loans to ensure that all criteria evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses account in profit or loss.

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

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

(c) Derecognition of Financial Assets

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

2.5 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on 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.

2.6 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation and amortization and any impairment in value.

The cost of bank premises, furniture, fixtures and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location 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 on the straight-line basis over the estimated useful lives of the assets as follows:

	Note	**2017**	2016
Buildings	3.2 (d)	**25 years**	20 years
Transportation equipment		**5 years**	5 years
Furniture, fixtures and other equipment		**5-10 years**	5-10 years

Leasehold rights and improvements are amortized over the estimated useful lives of the improvements of 10 years or the terms of the related leases, 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 2.18).

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

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, 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.

2.7 Investment Properties

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

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.18). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell.

Depreciation and impairment losses are recognized in the same manner as in bank premises.

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

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

2.8 Assets Held-for-Sale and Disposal Group

Assets held-for-sale pertain to transportation equipment and real and other properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan. Assets held for disposal group pertains to the Bank's investments in the shares of stock of its subsidiaries which the Bank has committed to liquidate under its equity divestment program in compliance with the mandate of the BSP (see Note 13.1.3).

The Bank 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 Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

Assets held-for-sale and disposal group 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. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group 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.

Assets 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 gain or loss arising from the sale or remeasurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Gain on Sale of Assets or Miscellaneous Expenses account under Other Operating Income or Other Operating Expenses in the statement of profit or loss, respectively.

2.9 Intangible Assets

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

Goodwill represents the excess of the cost of acquisition over the fair values of the net assets purchased from Capitol Development Bank in 1998.

Goodwill having indefinite useful life is not subject to amortization but require an annual test for impairment while other intangible assets are subject to impairment testing as described in Note 2.18.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives (ranging from five to ten years) as these intangible assets are considered finite [see Note 3.2(d)].

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

The costs of any internally generated software development are recognized as intangible assets; they are subject to the same subsequent measurement method as externally acquired software licenses. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.18. Amortization commences upon completion of the asset.

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.

2.10 Other Resources

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

2.11 Financial Liabilities

Financial liabilities which include deposit liabilities, manager's check payable, accrued interest and other expenses (except for tax-related payables), and other liabilities (except for post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for maturities beyond one year less settlement payments. All interest-related charges on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period when they arise.

The Bank has no financial liabilities measured at FVPL at the end of each reporting period.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 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.

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.

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

2.13 Equity

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

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

Revaluation reserves pertain to remeasurements of post-employment defined benefit plan based on the accumulated balances of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of the defined benefit obligation.

Reserve for trust business represents the accumulated amount set aside by the Bank under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus shall amount to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

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

2.14 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Bank; and, the costs incurred or to be incurred can be measured reliably.

In addition, the following specific recognition criteria must also be met before a revenue is recognized:

(a) *Interest income and expenses* are recognized in profit or loss for all instruments measured at amortized cost and financial assets at FVPL (debt securities) using the effective interest method.

    The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums or discounts.

    Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Loan fees,* which are reported as part of Service Charges, Commissions and Fees account in the statement of profit or loss, are recognized as earned over the terms of the credit lines granted to each borrower. *Service charges and penalties,* also presented as part of Service Charges, Commissions and Fees, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility.

(c) *Dividend income* is recognized when the Bank's right to receive payment is established. Dividend income is included as part of Other Operating Income in the statement of profit or loss.

(d) *Gain on sale of assets*, which arises from the disposals of assets held-for-sale, are recognized when the related risks and rewards of ownership of the assets have already been transferred to the buyer.

(e) *Gain on sale of investment securities*, which arises from the disposal of investment securities, are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from mark-to-market valuation of the securities at the valuation date (see Note 2.4).

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

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

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

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

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

2.16 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos, except for the accounts of the Bank's FCDU which are maintained in US dollars [see Note 2.1(c)]. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at the prevailing PDSCR at the end of reporting period. Foreign exchange gains and losses resulting from the settlement of foreign currencies and translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.17 Employee Benefits

The Bank provides employee benefits to employees through a define benefit plan and defined contribution plan, and other employee 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 Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero-coupon government bonds as published by the Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the 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 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 Operating Expenses or Other Operating Income 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 Bank pays fixed contributions into an independent entity. The Bank 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 and are included in liabilities or assets section of the statement of financial position.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits or 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 each reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included as part of Accrued Interest, Taxes and Other Expenses account at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement which are expected to be subsequently used.

2.18 Impairment of Non-financial Assets

The Bank's investments in subsidiaries, bank premises, furniture, fixtures and equipment, investment properties, other resources (excluding security deposits) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use and goodwill are tested for impairment at least annually.

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

Except for intangible assets with an indefinite useful life (i.e., goodwill) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

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

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

All assets other than 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 cash generating unit's recoverable amount exceeds its carrying amount.

2.19 Borrowing Costs

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

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

2.20 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

2.21 Trust and Fiduciary Activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of resources 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 they are not resources and income or loss of the Bank.

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments as enumerated below and on the succeeding pages, 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 Classifying Financial Instruments

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

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

(b) Testing the Cash Flow Characteristics of Financial Assets

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

In addition, 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 Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(c) Distinction Between Investment Properties, Assets Held-for-Sale and Owner-occupied Properties

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

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), the Bank accounts for the portions 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 its banking operations or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

The Bank considers each property separately in making its judgment.

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

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 6.

(e) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements as 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 and liabilities. Management has assessed that all its existing lease arrangements qualify under operating lease.

(f) 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 26.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its on-going proceedings will have material adverse effect on the Bank'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 of Uncertainty

Enumerated on the succeeding pages are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period.

(a) Estimation of Impairment of Loans and Receivables and Investment Securities at Amortized Cost

The Bank reviews its loans and receivables portfolio to assess impairment at least on a semi-annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Moreover, the Bank holds debt securities measured at amortized cost included as part of Trading and Investment Securities in the statements of financial position as of December 31, 2017 and 2016.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 9, while the information related to investment securities at amortized cost are presented in Note 8.2.

(b) Determination of Fair Value Measurement for Financial Assets at FVPL

The Bank carries certain financial assets at fair value which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument (see Note 6.2). The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial assets would affect profit or loss and other comprehensive income in the next reporting periods.

The Bank had purchases of financial assets at FVPL amounting to P2,396.0 million and P5,081.6 million for 2017 and 2016, respectively, which were eventually disposed of throughout the period.

(c) Fair Value Measurement for Investment Properties

The Bank's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation, and are measured using cost model. The estimated fair value of investment property disclosed in Note 6.4 is determined on the basis of the appraisals conducted by professional and independent 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.

(d) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, and Computer Software

The Bank 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 those 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 during the year. The carrying amount of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 11 and 12, respectively, while the carrying amount of computer software is presented in Note 13.2.2.

In 2017, based on current facts and circumstances, management changed the estimated useful life of buildings from 20 years in 2016 to 25 years in 2017 (see Note 2.6). Also, the useful life of computer software was increased from five years in 2016 to ten years in 2017 (see Note 2.9). There is no change in estimated useful lives of the other assets. Consequently, the change in useful lives of these assets, which were applied prospectively, did not result in material change in the Bank's annual depreciation and amortization expense.

(e) Estimation of Impairment Losses for 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 Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.18. 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 the Bank's operations.

Impairment losses recognized on investment properties are discussed in Note 12.

(f) Determination of Realizable Amount of Deferred Tax Assets

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

In 2017 and 2016, the Bank recognized deferred tax assets on their allowance for impairment related to certain loans and receivables classified as financial assets at amortized cost (see Note 9), Investment Properties (see Note 12) and Assets Held-for-Sale (see Note 13) since management believes that the Bank will be able to generate sufficient taxable profit in the subsequent reporting periods against which the benefits of temporary difference can be utilized (see Note 22.1).

The Deferred Tax Assets amounted to P829.4 million and P744.2 million as of December 31, 2017 and 2016, respectively, in the statements of financial position.

(g) Valuation of Post-employment Defined Benefit Plan

The determination of the Bank'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 rate and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 21.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to its financial instruments. The Bank's financial assets and financial liabilities by category are summarized in Note 5. The main types of risks are liquidity risk, market risk and credit risk.

The Bank's risk management is closely coordinated with its Parent Bank, in close coordination with the BOD, Risk Management Committee (RMC) and the Risk Management Division (RMD) of the Bank and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate reasonable returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages:

4.1 Liquidity Risk

The Bank manages its liquidity needs by carefully monitoring scheduled deposits, bills and debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity gap and liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection through maximum cumulative outflow (MCO). The MCO limit is a monetary amount set by the BOD to control the liquidity gap for such currency. The Bank manages market access to various funding alternatives, how much funds can be raised from the market in both normal and abnormal conditions if there is a breach in the MCO. This involves periodical review efforts to establish, maintain and diversify liabilities and their maturities.

The analyses of the groupings of resources, liabilities and off-statement of financial position items at the end of each reporting period are as follows:

Maximum Cumulative Outflow as of December 31, 2017 (in millions of Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Resources:							
Cash and other cash items	P 11	P -	P -	P -	P -	P 4,447	P 4,458
Due from BSP	2,000	-	-	-	-	8,333	10,333
Due from other banks:							
Local banks	1,778	18	-	-	-	-	1,796
Foreign banks	358	-	-	-	-	-	358
Loans and receivables arising from reverse repurchase agreement	2,313	-	-	-	-	-	2,313
Trading and investment securities - net	150	532	1,462	2,844	6,497	22	11,507
Loans and receivables - net	3,219	4,265	15,677	43,263	12,348	3,435	82,207
Investments in subsidiaries	-	-	-	-	-	206	206
Bank premises, furniture and fixtures - net	-	-	-	-	-	1,058	1,058
Investment properties - net	-	-	-	-	-	1,353	1,353
Assets held-for-sale and disposal group - net	-	-	-	-	-	663	663
Other resources - net	802	188	33	-	-	596	1,619
Total Resources	**P 10,631**	**P 5,003**	**P 17,172**	**P 46,107**	**P 18,845**	**P 20,113**	**P 117,871**
Liabilities:							
Deposits:							
Demand	P 1,018	P 1,484	P 2,226	P -	P -	P 7,134	P 11,862
Savings	430	1,218	1,827	-	-	21,986	25,461
Time	5,447	2,471	1,412	1,193	-	53,839	64,362
Manager's check payable	741	-	-	-	-	-	741
Accrued interest, taxes and other expenses:							
Payment orders payable	12	-	-	-	-	-	12
Accrued interest, taxes and other expenses	862	9	-	-	-	-	871
Unearned income and other deferred credits	-	-	-	-	-	2	2
Other liabilities	2,492	20	-	-	-	68	2,580
Total Liabilities	**P 11,002**	**P 5,202**	**P 5,465**	**P 1,193**	**P -**	**P 83,029**	**P 105,891**

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Equity:							
Common stock	P -	P -	P -	P -	P -	P 3,087	P 3,087
Additional paid-in capital	-	-	-	-	-	103	103
Surplus and trust reserves	-	-	-	-	-	8,809	8,809
Revaluation reserves	-	-	-	-	-	(19)	(19)
Total Equity	P -	P -	P -	P -	P -	P 11,980	P 11,980
On-book gap	**(P 371)**	**(P 199)**	**P 11,707**	**P 44,914**	**P 18,845**	**(P 74,896)**	**P -**
Cumulative on-book gap	**(P 371)**	**(P 570)**	**P 11,137**	**P 56,051**	**P 74,896**	**P -**	**P -**
Contingent liabilities:							
Trust department accounts	P 27,190	P -	P -	P -	P -	P -	P 27,190
Spot exchange sold	110	-	-	-	-	-	110
Late deposits/payments received	133	-	-	-	-	-	133
Standby letters of credit	65	-	-	-	-	-	65
Total contingencies	P 27,498	P -	P -	P -	P -	P -	P 27,498
Off-book gap	**P 27,498**	**P -**	**P -**	**P -**	**P -**	**P -**	**P 27,498**
Cumulative total gap	**P 27,127**	**P 26,928**	**P 38,635**	**P 83,549**	**P 102,394**	**P 27,498**	**P -**

Maximum Cumulative Outflow as of December 31, 2016 (in millions of Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Resources:							
Cash and other cash items	P 6	P -	P -	P -	P -	P 4,140	P 4,146
Due from BSP	-	-	-	-	-	14,713	14,713
Due from other banks:							
Local banks	1,811	18	-	-	-	-	1,829
Foreign banks	165	-	-	-	-	-	165
Loans and receivables arising from reverse repurchase agreement	2,958	-	-	-	-	-	2,958
Trading and investment securities - net	50	125	1,305	1,600	3,801	-	6,881
Loans and receivables - net	2,189	3,634	14,157	36,340	10,643	5,549	72,512
Investments in subsidiaries	-	-	-	-	-	155	155
Bank premises, furniture and fixtures - net	-	-	-	-	-	1,115	1,115
Investment properties - net	-	-	-	-	-	1,124	1,124
Assets held-for-sale and disposal group - net	-	-	-	-	-	1,876	1,876
Other resources - net	-	-	-	-	-	1,447	1,447
Total Resources	P 7,179	P 3,777	P 15,462	P 37,940	P 14,444	P 30,119	P 108,921

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Maturity	Total
Liabilities:							
Deposits:							
Demand	P 148	P 556	P 834	P -	P -	P 8,023	P 9,561
Savings	803	1,046	1,569	-	-	19,977	23,395
Time	6,436	2,054	2,326	737	-	50,252	61,805
Manager's check payable	522	-	-	-	-	-	522
Accrued interest, taxes and other expenses:							
Payment orders payable	24	-	-	-	-	-	24
Accrued interest, taxes and other expenses	982	28	-	-	-	-	1,010
Unearned income and other deferred credits	-	-	-	-	-	5	5
Other liabilities	1,924	-	-	-	-	130	2,054
Total Liabilities	P 10,839	P 3,684	P 4,729	P 737	P -	P 78,387	P 98,376
Equity:							
Common stock	P -	P -	P -	P -	P -	P 3,087	P 3,087
Additional paid-in capital	-	-	-	-	-	103	103
Surplus and trust reserves	-	-	-	-	-	7,459	7,459
Revaluation reserves	-	-	-	-	-	(104)	(104)
Total Equity	P -	P -	P -	P -	P -	P 10,545	P 10,545
On-book gap	(P 3,660)	P 93	P 10,733	P 37,203	P 14,444	(P 58,813)	P -
Cumulative on-book gap	(P 3,660)	(P 3,567)	P 7,166	P 44,369	P 58,813	P -	P -
Contingent liabilities:							
Trust department accounts	P 23,544	P -	P -	P -	P -	P -	P 23,544
Spot exchange sold	149	-	-	-	-	-	149
Late deposits/payments received	121	-	-	-	-	-	121
Standby letters of credit	59	-	-	-	-	-	59
Outward bills for collection	2	-	-	-	-	-	2
Total contingencies	P 23,875	P -	P -	P -	P -	P -	P 23,875
Off-book gap	(P 30,471)	P 93	P 10,733	P 37,203	P 14,444	(P 58,836)	P 23,875
Cumulative total gap	(P 30,471)	(P 30,378)	(P 19,645)	P 17,558	P 32,002	(P 23,875)	P -

4.2 Credit Risk

The Bank's BOD has the responsibility for approving and periodically reviewing the market risk strategy and significant credit risk policies of the Bank. The BOD shall determine that the Bank's capital level is adequate for the risks assessed to carry out the strategy.

Senior management has the responsibility for implementing the credit risk strategy approved by the BOD and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. To ensure sound credit portfolio, the Bank operates within a sound, well-defined credit granting criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or counterparty, as well as the purpose and structure of credit, and its source of repayment. The Bank also establishes overall credit limits at the level of individual borrowers and counterparties, and groups of connected borrowers and counterparties that will aggregate in a comparable meaningful manner of different types of exposures, both in the banking and trading books and on and off-statement of financial position.

(a) Exposure to Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements as summarized below (in millions of Philippine pesos).

	Notes	**2017**	2016
Cash and other cash items	7	**P 4,458**	P 4,146
Due from BSP	7	**10,332**	14,713
Due from other banks	7	**2,154**	1,994
Loans and receivables arising from reverse repurchase agreement	7	**2,313**	2,958
Investment securities at amortized cost	8	**11,507**	6,881
Loans and receivables – net	9	**82,207**	72,512
Other resources	13.2	**97**	93
		P 113,068	P 103,297

The credit risk quality of the Bank's financial assets is further described as follows:

(i) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are Cash and Other Cash Items, Due from BSP, Due from Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every depositor per banking institution.

(ii) Investment Securities at Amortized Cost

The Bank continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Moreover, these investments are mainly composed of government bonds whose credit risk is secured by the Philippine Government and certain corporate debt securities issued by publicly-known local companies with no observed history of credit default. Accordingly, all debt instruments held by the Bank are considered as either high grade or standard grade that is neither past due nor specifically impaired.

(iii) Loans and Receivables

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

The analysis of the carrying amounts of loans and receivables and investment securities at amortized cost recognized in the financial statements and their credit grading are as follows (in millions of Philippine pesos):

	2017	
	Loans and Receivables	**Investment Securities at Amortized Cost**
Carrying amount in the statement of financial position	**P 82,207**	**P 11,507**
Individually assessed for impairment		
Especially mentioned/watch list	**P 1,225**	**P -**
Sub-standard	**3,156**	**-**
Doubtful	**48**	**-**
Loss	**1,097**	**-**
Gross	**5,526**	**-**
Allowance for impairment	**(1,991)**	**-**
Carrying amount	**3,535**	**-**
Collectively assessed for impairment		
Unclassified	**79,301**	**11,507**
Allowance for impairment	**(629)**	**-**
Carrying amount	**78,672**	**11,507**
Total carrying amount	**P 82,207**	**P 11,507**

	2016	
	Loans and Receivables	Investment Securities at Amortized Cost
Carrying amount in the statement of financial position	P 72,512	P 6,881
Individually assessed for impairment		
Especially mentioned/watch list	P 4,055	P -
Sub-standard	1,203	-
Doubtful	-	-
Loss	593	-
Gross amount	5,851	-
Unearned interest discount and prompt payment discount	(9)	-
Allowance for impairment	(989)	-
Carrying amount	4,853	-
Collectively assessed for impairment		
Unclassified	68,189	6,881
Allowance for impairment	(530)	-
Carrying amount	67,659	6,881
Total carrying amount	P 72,512	P 6,881

(b) Concentration of Credit

Concentration of credit arises when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic political or other conditions. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

For trading and investment securities, the Bank limits investments to government issues and securities issued by entities with high-quality investment ratings.

The information about the Bank's concentration of credit risk as to industry, particularly, of its loans and discount portfolio is presented in Note 9.

(c) Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans to borrower in the form of mortgage interests over properties, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Generally, collateral is not held over loans to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Also, collateral usually is not held against investment security. No such collaterals were held as of December 31, 2017 and 2016.

An estimate of the fair value of collateral and other security enhancements held against the Bank's loans and receivables as of December 31 is shown below (in millions of Philippine pesos).

		2017		2016
Against neither past due nor impaired				
Property – real estate	**P**	**77,413**	P	69,908
Chattel		**53,664**		46,927
Hold-out deposits		**347**		454
Against individually impaired				
Property – real estate		**11,646**		19,986
Chattel		**9,525**		8,292
	P	**152,595**	P	145,567

4.3 Market Risk

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign currency denominated instruments and debt securities. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market risk management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and the BOD. In managing market risk, the Bank measures the sensitivity of its financial instruments primarily related to interest rate risk and foreign currency risk.

(a) Interest Rate Risk

The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-statement of financial position items to interest rate fluctuations. The focus of the analysis is in the impact of changes in interest rates on accrual or reported earnings. This analysis would give management information on the maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all interest rate sensitive assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net profit and equity.

With all other variables held constant, a positive gap on the Bank's interest rate sensitive financial assets and liabilities and increasing interest rate will increase net profit and equity. On the other hand, a negative gap and increasing interest rate will decrease net profit and equity.

The analyses of the groupings of interest rate sensitive resources, liabilities and off-statement of financial position items as of December 31, 2017 and 2016 are presented in the next page.

Interest Rate Gap Summary (in million Philippine pesos):

	On Demand	One to Three Months	Three Months to One Year	One to Five Years	More Than Five Years	Non-Rate Sensitive	Total
December 31, 2017							
Resources:							
Cash and cash equivalents	P 4,147	P 18	P -	P -	P -	P 12,780	P 16,945
Loans and receivabkes arising from reverse repurchase agreement	2,313	-	-	-	-	-	2,313
Loans and receivable – net	1,704	2,626	12,936	54,499	3,151	7,291	82,207
Trading and investment securities – net	150	532	1,462	2,844	6,291	228	11,507
Other resources – net	-	-	-	-	-	4,899	4,899
Total Resources	P 8,314	P 3,176	P 14,398	P 57,343	P 9,442	P 25,198	P117,871
Liabilities:							
Deposits:							
Demand	P -	P -	P -	P -	P -	P 11,862	P 11,862
Savings	-	-	-	-	-	25,461	25,461
Time	34,049	14,026	8,288	7,999	-	-	64,362
Other liabilities	-	-	-	-	-	4,206	4,206
Total Liabilities	34,049	14,026	8,288	7,999		41,529	105,891
Equity	-	-	-	-	-	11,980	11,980
Total liabilities and equity	P 34,049	P 14,026	P 8,288	P 7,999	P -	P 53,509	P117,871
Gap	**(P 25,735)**	**(P 10,850)**	**P 6,110**	**P 49,344**	**P 9,442**	**(P 28,311)**	**P -**
Cumulative Gap	**(P 25,735)**	**(P 36,585)**	**(P 30,475)**	**P 18,869**	**P 28,311**	**P -**	**P -**
December 31, 2016							
Resources:							
Cash and cash equivalents	P 1,983	P 18	P -	P -	P -	P 18,852	P 20,853
Loans and receivables arising from reverse repurchase agreement	2,958	-	-	-	-	-	2,958
Loans and receivable – net	2,442	1,837	10,677	48,889	3,117	5,550	72,512
Trading and investment securities – net	50	125	1,305	1,600	3,617	184	6,881
Other resources – net	-	-	-	-	-	5,717	5,717
Total Resources	P 7,433	P 1,980	P 11,982	P 50,489	P 6,734	P 30,303	P108,921
Liabilities:							
Deposits:							
Demand	P -	P -	P -	P -	P -	P 9,561	P 9,561
Savings	-	-	-	-	-	23,395	23,395
Time	35,728	9,554	12,252	4,270	1	-	61,805
Other liabilities	-	-	-	-	-	3,615	3,615
Total Liabilities	35,728	9,554	12,252	4,270	1	36,571	98,376
Equity	-	-	-	-	-	10,545	10,545
Total liabilities and equity	P 35,728	P 9,554	P 12,252	P 4,270	P 1	P 47,116	P108,921
Gap	(P 28,295)	(P 7,574)	(P 270)	P 46,219	P 6,733	(P 16,813)	P -
Cumulative Gap	(P 28,295)	(P 35,869)	(P 36,139)	P 10,080	P 16,813	P -	P -

(b) Foreign Currency Risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that the Bank believes to be relatively conservative for a financial institution engaged in that type of business. While most of the Bank's financial instruments are denominated in Philippine peso, it also maintains reasonable level of foreign currencies denominated in US dollar, European Union (EU) euro, and Japanese yen.

The Bank's foreign exchange exposure is guided by the limits approved by the BOD at the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

A summary of the Bank's significant financial resources and financial liabilities accounts broken down into their foreign currency and Philippine peso components as of December 31 is presented below and in the next page (in millions of Philippine pesos).

	US Dollar	EU Euro	Japanese Yen	Philippine Peso	Total
December 31, 2017					
Resources:					
Cash and other cash items	P 141	P 13	P 7	P 4,297	P 4,458
Due from BSP	-	-	-	10,332	10,332
Due from other banks	1,212	135	66	741	2,154
Loans and receivables arising from reverse repurchase agreement	-	-	-	2,313	2,313
Investment securities at amortized cost - net	5,948	-	-	5,559	11,507
Loans and receivables - net	95	-	-	82,112	82,207
Other resources - net	-	-	-	97	97
	P 7,396	P 148	P 73	P 105,451	P 113,068
Liabilities:					
Deposit liabilities	P 7,248	P 146	P 74	P 94,217	P 101,685
Manager's check payable	-	-	-	741	741
Accrued interest and other expenses	18	-	-	771	789
Other liabilities	9	-	-	2,524	2,533
	P 7,275	P 146	P 74	P 98,253	P 105,748

		US Dollar		EU Euro		Japanese Yen		Philippine Peso		Total
December 31, 2016										
Resources:										
Cash and other cash items	P	187	P	8	P	9	P	3,942	P	4,146
Due from BSP		-		-		-		14,713		14,713
Due from other banks		1,160		95		61		678		1,994
Loans and receivables arising from reverse repurchase agreement		-		-		-		2,958		2,958
Investment securities at amortized cost - net		4,975		-		-		1,906		6,881
Loans and receivables - net		74		-		-		72,439		72,512
Other resources - net		-		-		-		93		93
	P	6,396	P	103	P	70	P	96,729	P	103,297
Liabilities:										
Deposit liabilities	P	6,146	P	158	P	68	P	88,389	P	94,761
Manager's check payable		-		-		-		522		522
Accrued interest and other expenses		10		-		-		891		901
Other liabilities		7		-		-		1,869		1,876
	P	6,163	P	158	P	68	P	91,671	P	98,060

The Bank's foreign currency sensitivity and risk are measured and controlled through the value-at-risk (VaR) model as discussed below.

The Bank's market risk management limits are generally categorized as limits on:

- VaR – the RMD computes the value-at-risk benchmarked at a level which is a percentage of projected earnings. The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – the RMD sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – the RMD sets the nominal amount of US dollar denominated instruments at the BSP-mandated US dollar overbought position limit.

- Trading volume – the RMD sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – the RMD computes the earnings-at-risk based on a percentage of projected annual net interest income.

The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book. VaR is one of the key measures in the Bank's management of market 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. The Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the Bank's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.

- 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.

- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

A summary of the VaR position of the trading portfolios at December 31, 2017 and 2016 and during the period is as follows (in thousands of Philippine Pesos):

				Range for the Year		
	At December 31	**Average**	**Minimum**	**Maximum**	**VaR Limit**
2017:					
Interest rate risk	**P 215,400**	**P 162,067**	**P 113,871**	**P 223,669**	**P 25,000**
Foreign currency risk	**49**	**533**	**49**	**1,030**	**12,500**
	P 215,449	**P 162,600**			
2016:					
Interest rate risk	P 117,251	P 130,094	P 96,307	P 207,924	P 25,000
Foreign currency risk	355	423	146	1,031	12,500
	P 117,606	P 130,517			

4.4 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 RMD of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

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

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

- With RMD'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 results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

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

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

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

An Operational Risk System is in place across the RCBC group, including the Bank. It is the intention of RCBC Group to eventually migrate to the Advanced Management Approach for Operational Risk, subject to approval by the BSP.

The Bank, in coordination and consistent with RCBC, has 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 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.

4.4.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank 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 Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank, in coordination and consistent with RCBC, adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Public Relations Committee chaired by the Head of the Parent Bank's Corporate Communications Division.

4.4.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank 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 Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to 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 Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.5 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Chief Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2017		2016	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
At amortized cost:					
Cash and other cash items	7	**P 4,457,783,721**	**P 4,457,783,721**	P 4,146,105,882	P 4,146,105,882
Due from BSP	7	**10,332,553,346**	**10,332,553,346**	14,712,658,644	14,712,658,644
Due from other banks	7	**2,153,704,387**	**2,153,704,387**	1,994,411,693	1,994,411,693
Loans and receivables arising from reverse repurchase agreement	7	**2,313,002,922**	**2,313,002,922**	2,958,465,090	2,958,465,090
Investment securities at amortized cost - net	8	**11,507,055,935**	**11,474,763,271**	6,881,206,226	6,742,753,338
Loans and receivables - net	9	**82,206,531,110**	**84,997,989,397**	72,512,195,758	74,843,295,055
Other resources - net	13	**96,822,108**	**96,822,108**	92,715,315	92,715,315
		P113,067,453,529	**P115,826,619,152**	P103,297,758,608	P105,490,405,017
Financial liabilities					
At amortized cost:					
Deposit liabilities	14	**P101,684,558,574**	**P101,704,122,625**	P 94,760,715,397	P 94,769,439,101
Manager's check payable	16	**740,530,829**	**740,530,829**	521,972,467	521,972,467
Accrued interest and other expenses	17	**789,363,856**	**789,363,856**	901,043,260	901,043,260
Other liabilities	18	**2,533,497,495**	**2,533,497,495**	1,876,025,888	1,876,025,888
		P105,747,950,754	**P105,767,514,805**	P 98,059,757,012	P 98,068,480,716

Except for investment securities at amortized cost with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented on the preceding page which are measured at amortized cost, approximate the fair values because those instruments are short-term in nature. The fair value information disclosed for the Bank's investment securities at amortized cost and other financial assets measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 6.2.

5.2 Offsetting of 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 agreements:

			Related amounts not set off in the statements of financial position		
	Note	Gross amounts recognized in the statements of financial position	Financial Instruments	Collateral received	Net amount
Loans and receivables	9				
December 31, 2017		**P 82,206,531,110**	**(P 347,009,897)**	**P -**	**P 81,859,521,213**
December 31, 2016		P 72,512,195,758	(P 454,273,330)	P -	72,057,922,428

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

			Related amounts not set off in the statements of financial position		
	Note	Gross amounts recognized in the statements of financial position	Financial Instruments	Collateral received	Net amount
Deposit liabilities	14				
December 31, 2017		**P101,684,558,574**	**(P 347,009,897)**	**P -**	**P101,337,548,677**
December 31, 2016		94,760,715,397	(454,273,330)	-	94,306,442,067

For financial assets and financial liabilities (i.e., loans and receivables and the related hold-out deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and its customers allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial 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.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and 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 levels of the fair value hierarchy are described in the next page.

- 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 Bank 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. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

6.2 Financial Instruments Measured at Fair Value

The fair value of the Bank's government bonds and corporate papers categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based or referenced on price quoted or actually dealt in an active market (i.e., PDEx) at the end of each of the reporting period, including peso-denominated government securities based on the weighted average of done or executed deals.

In 2017 and 2016, the Bank had regular trading of financial assets at FVPL. However, the Bank has no outstanding financial assets at FVPL and financial liabilities measured at fair value as at December 31, 2017 and 2016.

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

The table on the next page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair values are disclosed.

	Level 1	Level 2	Level 3	Total
2017:				
Financial assets:				
Cash and other cash items	P 4,457,783,721	P -	P -	P 4,457,783,721
Due from BSP	10,332,553,346	-	-	10,332,553,346
Due from other banks	2,153,704,387	-	-	2,153,704,387
Loans and receivables arising from reverse repurchase agreement	2,313,002,922	-	-	2,313,002,922
Investment securities at amortized cost - net	11,474,763,271	-	-	11,474,763,271
Loans and receivables - net	-	-	84,997,989,397	84,997,989,397
Other resources - net	-	-	96,822,108	96,822,108
	P30,731,807,647	**P -**	**P85,094,811,505**	**P 115,826,619,152**
Financial liabilities:				
Deposit liabilities	P -	P -	P 101,704,122,625	P 101,704,122,625
Manager's check payable	-		740,530,829	740,530,829
Accrued interest and other expenses	-	-	789,363,856	789,363,856
Other liabilities	-	-	2,533,497,495	2,533,497,495
	P -	**P -**	**P 105,767,514,805**	**P 105,767,514,805**
2016:				
Financial assets:				
Cash and other cash items	P 4,146,105,882	P -	P -	P 4,146,105,882
Due from BSP	14,712,658,644	-	-	14,712,658,644
Due from other banks	1,994,411,693	-	-	1,994,411,693
Loans and receivables arising from reverse repurchase agreement	2,958,465,090	-	-	2,958,465,090
Investment securities at amortized cost - net	6,742,753,338	-	-	6,742,753,338
Loans and receivables - net	-	-	74,843,295,055	74,843,295,055
Other resources - net	-	-	92,715,315	92,715,315
	P30,554,394,647	P -	P74,936,010,370	P105,490,405,017
Financial liabilities:				
Deposit liabilities	P -	P -	P94,769,439,101	P 94,769,439,101
Manager's check payable	-		521,972,467	521,972,467
Accrued interest and other expenses	-	-	901,043,260	901,043,260
Other liabilities	-	-	1,876,025,888	1,876,025,888
	P -	P -	P98,068,480,716	P 98,068,480,716

(a) *Due from BSP and Other Banks, and Loan and Receivables Arising from Reverse Repurchase Agreement*

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount.

(b) *Loans and Receivables*

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

(c) *Investment Securities at Amortized Cost*

Investment Securities at Amortized Cost consist of government and corporate bonds. The fair value of these investment securities is determined by direct reference to published price quoted in an active market for traded securities.

(d) *Deposit Liabilities and Manager's Check Payable*

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.

The estimated fair value manager's check payable is the amount repayable on demand.

(e) *Other Resources and Other Liabilities*

Due to their short-term 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.

6.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy, amounted to P3.0 billion and P2.6 billion as of December 31, 2017 and 2016, respectively.

The fair values disclosed for the Bank's investment properties as of December 31, 2017 and 2016 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

The fair value of the Bank's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

(b) *Fair Value Measurement for Buildings*

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

There has been no change to the valuation technique in 2017 and 2016.

7. CASH AND CASH EQUIVALENTS

The components of this account are as follows:

	Note	**2017**	2016
Cash and other cash items	14	**P 4,457,783,721**	P 4,146,105,882
Due from BSP	14	**10,332,553,346**	14,712,658,644
Due from other banks		**2,153,704,387**	1,994,411,693
Loans and receivables arising from reverse repurchase agreement		**2,313,002,922**	2,958,465,090
		P 19,257,044,376	P 23,811,641,309

7.1 Cash and Other Cash Items

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of teller, including automated teller machines. Cash items consist of foreign currency notes and coins and checks and cash items (other than currency on hand), such as checks drawn on other banks and other items received after the Bank's clearing cut-off time until the close of the regular banking hours.

The breakdown of cash and other cash items by currency is shown below.

	2017	2016
Philippine peso	**P 4,296,923,355**	P 3,941,877,706
Foreign currencies	**160,860,366**	204,228,176
	P 4,457,783,721	P 4,146,105,882

7.2 Due from BSP

Due from BSP represents the aggregate balance of noninterest-bearing demand deposit account and interest-bearing overnight and term deposit accounts, both in local currency, maintained with the BSP primarily to meet a portion of reserve requirements and to serve as a clearing account for interbank claims (see Notes 14 and 24).

7.3 Due from Other Banks

The balance of due from other banks represents regular deposits with the following (see also Note 23.2):

	2017	2016
Local banks	**P 1,795,638,855**	P 1,829,677,031
Foreign banks	**358,065,532**	164,734,662
	P 2,153,704,387	P 1,994,411,693

Interest rates on these deposits range from 0.50% to 1.75% per annum in 2017 and 2016.

The breakdown of this account by currency is shown below.

	2017	2016
Philippine peso	**P 741,214,205**	P 677,608,719
Foreign currencies	**1,412,490,182**	1,316,802,974
	P 2,153,704,387	P 1,994,411,693

7.4 Loans Arising from Reverse Repurchase Agreement

These represent loans from BSP as of December 31, 2017 and 2016 arising from overnight lending from excess liquidity which earn effective interest of 3.0% and have maturity of five days. Interest income earned from these financial assets is presented under Interest Income in the statements of profit or loss.

8. TRADING AND INVESTMENT SECURITIES

As of December 31, 2017 and 2016, this account is comprised of investment securities at amortized cost amounting to P11.5 billion and P6.9 billion, respectively.

8.1 Financial Assets at FVPL

In 2017 and 2016, the Bank has traded various peso-denominated treasury bills, government bonds and corporate debt securities with interest rates ranging from 2.13% to 4.75% in 2017 and 1.33% to 6.06% in 2016, and with maturities of six months to 10 years for both reporting periods. As of December 31, 2017 and 2016, the Bank has no outstanding financial assets at FVPL.

The Bank recognized net fair value gains on the changes in the fair value of these financial assets amounting to P17.3 million and P13.9 million in 2017 and 2016, respectively, as part of Trading gains under Other Operating Income in the statements of profit or loss (see Notes 19.1).

8.2 Investment Securities at Amortized Cost

A reconciliation of the Bank's investment securities at amortized cost at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at beginning of year	**P 6,881,206,226**	P 10,215,343,472
Additions	**5,810,114,565**	715,359,120
Maturities	**(1,019,031,664)**	(1,076,429,018)
Redemption	**(165,233,192)**	-
Sales	**-**	(2,973,067,348)
Balance at end of year	**P 11,507,055,935**	P 6,881,206,226

These accounts are composed of investment in government and corporate bonds denominated in Philippine pesos, US dollars and EU euro with fixed interest rate ranging from 2.13% to 10.63% per annum in 2017 and 1.33% to 6.06% per annum in 2016. These debt securities have maturities ranging from one to 30 years.

In 2017, certain investment securities at amortized cost amounting to P168.9 million was redeemed by the issuer before its maturity. Such resulted in gain on redemption amounting to P3.6 million and is presented as part of Gain on sale of assets under Other Operating Income in the 2017 statement of profit or loss. Management has assessed that this redemption of the investment securities is consistent with the Bank's held to collect business model.

In March 2016, the Bank's Executive Committee approved the disposal of P4.2 billion of investment securities at amortized cost relative to the Bank's liquidity requirements. The sale of such investments is consistent with the Bank's held to collect business model for the portfolio with the objective of collecting contracted cash flows, and have qualified as a permitted sale under PFRS 9 since such is considered significant but infrequent sale. As of December 31, 2016, the Bank sold P3.0 billion out of the P4.2 billion investments approved for disposal. The Bank recognized loss on the disposal amounting to P174.2 million, and is presented Loss on Sale of Securities in the 2016 statement of profit or loss. The Bank's management did not intend to dispose of the remaining investments. There are no similar transactions in 2017.

The composition of these financial assets as to type of counterparty is shown below.

	2017	2016
Government	**P 9,252,920,056**	P 3,712,562,982
Corporate	**2,254,135,879**	3,228,740,435
	11,507,055,935	6,941,303,417
Allowance for impairment	**-**	(60,097,191)
	P 11,507,055,935	P 6,881,206,226

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

	2017	2016
US dollar	**P 5,948,246,520**	P 4,975,154,242
Philippine peso	**5,558,809,415**	1,906,051,984
	P 11,507,055,935	P 6,881,206,226

The information about the fair value measurement of the Bank's investments and trading securities are presented in Note 6.2.

The maturity profile of the investment securities at amortized cost follows:

	2017	2016
Within one year	**P 2,143,949,571**	P 1,480,132,551
Beyond one year	**9,363,106,364**	5,401,073,675
	P 11,507,055,935	P 6,881,206,226

8.3 Interest Income on Trading and Investment Securities

Interest income earned by the Bank from its trading and investment securities are as follow:

	2017	2016
Investment securities at amortized cost	**P 386,553,817**	P 324,575,341
Financial assets at FVPL	**273,090**	2,774,935
	P 386,826,907	P 327,350,276

9. LOANS AND RECEIVABLES

This account is comprised of:

	2017	2016
Loans:		
Loans and discounts	**P 81,691,128,372**	P 72,516,171,002
Prompt payment discount	**(564,201)**	(4,403,167)
Unearned discount and interest	**(1,506,212)**	(5,128,729)
Allowance for impairment	**(2,342,972,748)**	(2,049,231,015)
	79,346,085,211	70,457,408,091
Other receivables:		
Accounts receivable	**1,426,766,877**	441,725,320
Sales contracts receivable	**909,787,415**	1,069,560,580
Accrued interest receivable	**801,417,033**	687,174,362
Allowance for impairment	**(277,525,426)**	(143,672,595)
	2,860,445,899	2,054,787,667
	P 82,206,531,110	P 72,512,195,758

Included in these accounts are non-accruing loans (net of allowance) amounting to P3,865.3 million and P3,326 million as of December 31, 2017 and 2016, respectively.

In June 2017, the Bank entered into an agreement with a third party for the sale of various foreclosed real properties with book value of P1,126.8 million (see Note 13.1.1), for a total consideration of P1,384.7 million; of which P395.5 million and P989.2 million were in the form of cash and note receivable (the Note), respectively. The Note has a term of ten years with maturity date of June 9, 2027. On the date of sale, the present value of the Note amounted to P742.4 million, hence, the total fair value of consideration amounted to P1,137.9 million. Accordingly, the Bank recognized a gain on sale amounting to P11.1 million and is presented as part of Gain on sale of assets under Other Operating Income in the 2017 statement of profit or loss. There is no similar transaction in 2016.

For the year ended December 31, 2017, the Bank provided a total of P28.9 million impairment loss on the Note. The carrying value of the Note amounted to P761.4 million and is recognized as part of Accounts receivable.

Loans and receivables bear average effective interest rates of 4.50% to 57.60% per annum in 2017 and 7.00% to 57.60% per annum in 2016.

The concentration of credit of the Bank's loans and discounts as to industry follows:

	2017	2016
Consumer	**P 36,122,342,535**	P 31,163,649,969
Real estate	**28,011,251,994**	26,289,857,489
Other community, social and personal activities	**3,987,546,723**	4,278,570,518
Transportation and communication	**3,511,573,583**	2,313,217,281
Wholesale and retail trade	**3,467,996,036**	2,466,798,572
Financial intermediaries	**1,838,213,503**	1,510,712,087
Construction	**1,569,915,410**	1,352,288,158
Manufacturing	**414,565,172**	364,134,656
Utilities	**332,089,612**	582,014,584
Agriculture, fishing and forestry	**203,989,291**	204,380,337
Miscellaneous business activities	**2,231,644,513**	1,990,547,351
	P 81,691,128,372	P 72,516,171,002

Loans and discounts under miscellaneous business activities mainly pertain to loans to private households. Included also under miscellaneous business activities are back-to-back loans which are secured by hold-out deposits.

The breakdown of total loans and discounts as to secured and unsecured follows:

	2017	2016
Secured:		
Real estate	**P 42,161,971,349**	P 37,667,554,308
Chattel	**36,258,111,284**	31,360,835,625
Hold out on deposit	**347,009,897**	454,273,330
	78,767,092,530	69,482,663,263
Unsecured	**2,924,035,842**	3,033,507,739
	P 81,691,128,372	P 72,516,171,002

The maturity profile of the total loans and discounts follows:

	2017	2016
Within one year	**P 17,220,690,845**	P 19,907,364,221
Beyond one year	**64,470,437,527**	52,608,806,781
	P 81,691,128,372	P 72,516,171,002

All of the Bank's loans and receivables have been reviewed for indications of impairment. Certain loans and receivables were found to be impaired; accordingly, adequate amounts of allowance for impairment have been recognized.

A reconciliation of the amount of allowance for impairment on loans and receivables at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at beginning of year	**P 2,192,903,610**	P 1,861,507,762
Impairment losses	**505,755,640**	665,000,000
Write-offs/reversal	**(78,161,076)**	(333,604,152)
Balance at end of year	**P 2,620,498,174**	P 2,192,903,610

10. INVESTMENTS IN SUBSIDIARIES

This account is composed of the Bank's interest in the shares of stock of special purpose companies (SPCs) as shown below and in the next page.

The registered office of Niyog Property Holdings, Inc. or Niyog (which is 51.89% owned by the Bank), which is also its principal place of business, is located at 12th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen Gil Puyat Avenue, Makati City. The registered office of Cajel Realty Corporation or Cajel (wholly owned by the Bank), which is also its principal place of business, is located at Unit 1803, Philippine Stock Exchange Centre, West Tower, Exchange Road, Ortigas Center, Pasig City. On the other hand, the registered office and principal place of business of the other SPCs is the same registered business address of the Bank as a result of the amendment of the SPCs' Articles of Incorporation and as approved by the SEC in various dates in 2014.

The changes in the Bank's investments in subsidiaries in 2017 and 2016 consist of the following:

	Niyog	Cajel	Total
December 31, 2017			
Acquisition cost	P 223,410,225	P 49,833,277	P 273,243,502
Accumulated equity in net earnings (losses):			
Balance at beginning of the year	(121,302,927)	3,199,780	(118,103,147)
Share in net income	72,627,001	(502,728)	72,124,273
Cash dividend	(21,652,651)	-	(21,652,651)
Balance at end of year	(70,328,577)	2,697,052	(67,631,525)
	P 153,081,648	**P 52,530,329**	**P 205,611,977**

	Niyog	Cajel	Total
December 31, 2016			
Acquisition cost	P 223,410,225	P 49,833,277	P 273,243,502
Accumulated equity in net earnings (losses):			
Balance at beginning of the year	(56,474,165)	3,830,271	(52,643,894)
Share in net income	7,957,137	(630,491)	7,326,646
Cash dividend	(72,175,500)	-	(72,175,500)
Others	(610,399)	-	(610,399)
Balance at end of year	(121,302,927)	3,199,780	(118,103,147)
	P 102,107,298	P 53,033,057	P 155,140,355

The total cost of investments in subsidiaries pertains to the carrying amount of the Bank's interest in the shares of stock of the SPCs previously classified as part of Investment Properties account until 2009 which were transferred to the Bank from certain borrowers for the settlement of their indebtedness with the Bank through dacion of certain real properties but effected through the creation of SPCs. The Bank obtained approval from the BSP, dated March 2009, to reclassify such portion of Investment Properties account to Investments in Subsidiaries account subject to the following conditions: (i) the Bank should immediately dissolve the SPCs once the underlying dacioned real property assets are sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period.

In partial compliance with the requirement of the BSP, the management of the Bank resolved that the SPCs be disposed of through the conversion of the SPCs' existing common shares of stock into redeemable preferred shares and subsequently redeeming and retiring the same. Accordingly, at their special meeting held on September 30, 2013, the BOD and the stockholders of the SPCs approved that a portion of the common shares shall be convertible to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the following SPCs have been amended and subsequently approved by the SEC on November 28, 2013:

(a) Goldpath Properties Development Corporation (Goldpath)
(b) Eight Hills Property and Development Corporation (Eight Hills)
(c) Crescent Park Property and Development Corporation (Crescent)
(d) Niceview Property and Development Corporation (Niceview)
(e) Lifeway Property and Development Corporation(Lifeway)
(f) Gold Place Properties Development Corporation (Gold Place)
(g) Princeway Properties Development Corporation (Princeway)
(h) Greatwings Properties Development Corporation (Greatwings)
(i) Top Place Properties Development Corporation (Top Place)
(j) Crestview Properties Development Corporation (Crestview)
(k) Best Value Property and Development Corporation (Best Value)

On December 23, 2013, the SPCs' BOD approved the redemption of the SPC's respective preferred shares for a total consideration of P1,554.6 million.

In relation to the SPC disposal plan and to fully comply with the requirements of the BSP, the BOD of the Bank has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2016 which was approved by the SEC in various dates during the last quarter of 2014. As the Bank is committed and is in the process of liquidating the operations of those SPCs which is expected to be completed within 2018, the carrying amounts of the Bank's equity investments in SPCs subject for liquidation are accounted for under PFRS 5, *Non-Current Assets Held for Sale and Discontinued Operations*, hence, classified as Assets Held-for-sale and Disposal Group account in the statements of financial position (see Note 13.1).

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the gross carrying amounts and the accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 follows:

	Land	Buildings	Transportation Equipment	Furniture, Fixtures and Other Equipment	Leasehold Rights and Improvement	Total
December 31, 2017						
Cost	P 363,268,068	P 289,878,457	P 94,212,501	P 1,325,313,439	P 474,172,791	P 2,546,845,256
Accumulated depreciation and amortization	-	(215,744,253)	(45,359,257)	(974,081,337)	(254,140,545)	(1,489,325,392)
Net carrying amount	**P 363,268,068**	**P 74,134,204**	**P 48,853,244**	**P 351,232,102**	**P 220,032,246**	**P 1,057,519,864**
December 31, 2016						
Cost	P 363,268,068	P 275,049,703	P 87,585,127	P 1,245,225,336	P 414,008,192	P 2,385,136,426
Accumulated depreciation and amortization	-	(208,138,718)	(42,082,186)	(858,858,170)	(161,225,364)	(1,270,304,438)
Net carrying amount	P 363,268,068	P 66,910,985	P 45,502,941	P 386,367,166	P 252,782,828	P 1,114,831,988
January 1, 2016						
Cost	P 363,268,068	P 266,828,294	P 83,154,264	P 1,182,833,521	P 305,306,621	P 2,201,390,768
Accumulated depreciation and amortization	-	(196,848,490)	(39,111,498)	(737,576,883)	(71,539,699)	(1,045,076,570)
Net carrying amount	P 363,268,068	P 69,979,804	P 44,042,766	P 445,256,638	P 233,766,922	P 1,156,314,198

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016 is shown below.

	Land	Buildings	Transportation Equipment	Furniture, Fixtures and Other Equipment	Leasehold Rights and Improvement	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 363,268,068	P 66,910,985	P 45,502,941	P 386,367,166	P 252,782,828	P 1,114,831,988
Additions	-	14,761,624	32,337,671	135,699,960	62,798,296	245,597,641
Disposal	-	-	(14,359,734)	(28,888,634)	(2,534,318)	(45,782,686)
Adjustments	-	59,642	-	487,739	-	547,381
Depreciation and amortization charges for the year	-	(7,598,047)	(14,627,724)	(142,434,129)	(93,014,560)	(257,674,460)
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 363,268,068**	**P 74,134,204**	**P 48,853,244**	**P 351,232,102**	**P 220,032,246**	**P 1,057,519,864**

	Land	Buildings	Transportation Equipment	Furniture, Fixtures and Other Equipment	Leasehold Rights and Improvement	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 363,268,068	P 69,979,804	P 44,042,766	P 445,256,638	P 233,766,922	P 1,156,314,198
Additions	-	8,221,409	22,068,404	81,302,158	112.083,077	223,675,048
Disposal	-	-	(6,376,629)	(1,627,519)	(3,381,506)	(11,385,654)
Adjustments	-	-	-	(94,258)	-	(94,258)
Depreciation and amortization charges for the year	-	(11,290,228)	(14,231,600)	(138,469,853)	(89,685,665)	(253,677,346)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 363,268,068	P 66,910,985	P 45,502,941	P 386,367,166	P 252,782,828	P 1,114,831,988

Depreciation and amortization expenses on the Bank's premises, furniture, fixtures, and equipment amounting to P257.7 million in 2017 and P253.7 million in 2016 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

As of December 31, 2017 and 2016, the gross carrying amount of the Bank's fully-depreciated assets that are still in use in operations is P94.0 million and P54.0 million, respectively.

BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with this BSP requirement.

12. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land and buildings acquired through foreclosure or dacion as payment of outstanding loans by the borrowers.

A reconciliation of the gross carrying amounts and the accumulated depreciation and impairment losses of investment properties at the beginning and end of 2017 and 2016, follows:

	Land	**Building**	**Total**
December 31, 2017			
Cost	P 797,571,661	P 925,951,859	P 1,723,523,520
Accumulated impairment	(60,708,630)	(40,683,927)	(101,392,557)
Accumulated depreciation	-	(268,824,903)	(268,824,903)
Net carrying amount	**P 736,863,031**	**P 616,443,029**	**P 1,353,306,060**
December 31, 2016			
Cost	P 619,556,356	P 962,633,510	P 1,582,189,866
Accumulated impairment	(196,167,367)	(29,842,546)	(226,009,913)
Accumulated depreciation	-	(232,111,216)	(232,111,216)
Net carrying amount	P 423,388,989	P 700,679,748	P 1,124,068,737
January 1, 2016			
Cost	P 674,552,371	P 775,072,789	P 1,449,625,160
Accumulated impairment	(23,621,783)	(39,864,146)	(63,485,929)
Accumulated depreciation	-	(191,849,914)	(191,849,914)
Net carrying amount	P 650,930,588	P 543,358,729	P 1,194,289,317

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2017 and 2016 is shown below.

	Land	Building	Total
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 423,388,989	P 700,679,748	P 1,124,068,737
Additions	1,373,493,549	1,153,181,779	2,526,675,328
Disposals	(886,361,986)	(816,744,818)	(1,703,106,804)
Reclassification (see Note 13.1)	(68,142,275)	(42,500,924)	(110,643,199)
Impairment losses	(105,515,246)	(177,281,182)	(282,796,428)
Depreciation charges for the year	-	(200,891,574)	(200,891,574)
Balance at December 31, 2017, net of accumulated depreciation and impairment	**P 736,863,031**	**P 616,443,029**	**P 1,353,306,060**
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 650,930,588	P 543,358,729	P 1,194,289,317
Additions	266,901,036	808,340,013	1,075,241,049
Disposals	(295,494,243)	(252,513,120)	(548,007,363)
Reclassification (see Note 13.1)	(111,229,574)	(173,139,723)	(284,369,297)
Impairment losses	(87,718,818)	(55,000,000)	(142,718,818)
Depreciation charges for the year	-	(170,366,151)	(170,366,151)
Balance at December 31, 2016, net of accumulated depreciation and impairment	P 423,388,989	P 700,679,748	P 1,124,068,737

A reconciliation of the aggregate amount of the accumulated depreciation and impairment at the beginning and end of 2017 and 2016 is shown below.

	Note	**2017**	2016
Balance at beginning of year		**P 458,121,129**	P 255,335,843
Depreciation during the year		**200,891,574**	170,366,151
Impairment losses		**282,796,428**	142,718,818
Reclassification to (from) assets held-for-sale	13.1	**72,813,240**	(89,653,784)
Reversal due to disposals		**(644,404,911)**	(20,645,899)
Balance at end of year		**P 370,217,460**	P 458,121,129

Depreciation charges are presented as part of Depreciation and Amortization account in the statements of profit or loss. Real property taxes incurred on these investment properties amounted to P4.4 million and P2.4 million in 2017 and 2016, respectively, and are presented as part of Taxes and Licenses account in the statements of profit or loss. The Bank recognized a gain on disposal of investment properties totalling to P32.8 million and P85.5 million in 2017 and 2016, respectively, and is presented as part of Gain on Sale of Assets in the statements of profit or loss.

The information about the fair values of the Bank's investment properties are presented in Note 6.4.

As of December 31, 2017 and 2016, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

13. ASSETS HELD-FOR-SALE AND DISPOSAL GROUP AND OTHER RESOURCES

13.1 Assets Held-for-Sale and Disposal Group

This account consists of:

	Note		**2017**		2016
Foreclosed automobiles	13.1.2	**P**	**490,509,066**	P	392,580,352
Equity investments in subsidiaries	13.1.3		**291,334,509**		281,163,366
Foreclosed real properties	13.1.1		**-**		1,800,071,359
			781,843,575		2,473,815,077
Allowance for impairment		**(**	**118,959,389)**	(	191,772,629)
Accumulated depreciation			**-**	(	406,479,892)
		P	**662,884,186**	P	1,875,562,556

13.1.1 Foreclosed Real Properties

This account consists of real estate properties, located in different provinces of the Philippines, which are repossessed through foreclosure or dacion arrangement in lieu of payment of outstanding loan receivables and the corresponding interest from various borrowers.

In 2015, management classified such properties as held-for-sale since the carrying amount of those properties will be recovered principally through a sale transaction. The properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification. In June 2017, the sale of such properties to a third party has been completed (see Note 9).

13.1.2 Foreclosed Automobiles

This account consists of transportation equipment repossessed through foreclosure or dacion arrangement in lieu of payment of outstanding loan receivables and the corresponding interest from various borrowers. The Bank expects to sell these assets within one year from date of classification and it remains committed to dispose the assets through an active marketing program.

The Bank recognized a gain on disposal of foreclosed automobile amounting to P42.2 million and P34.7 million in 2017 and 2016, respectively, and presented as part of Gain on Sale of Assets in the statements of profit or loss.

13.1.3 Equity Investments in Subsidiaries

This account pertains to the total carrying amount of the Bank's interest in the shares of stock of the following SPCs which is currently being liquidated by the Bank and the process is expected to be completed in 2018 (see Note 10):

		2017		2016
Niceview	**P**	**94,592,655**	P	90,424,945
Crescent Park		**65,193,971**		60,723,382
Eight Hills		**59,745,643**		59,738,257
Stockton		**21,428,381**		20,985,431
Happyville		**17,654,502**		16,967,896
Gold Place		**7,757,020**		7,721,455
Greatwings		**7,578,763**		7,471,640
Landview		**7,245,548**		7,129,802
Fairplace		**6,906,031**		6,768,564
Princeway		**1,706,243**		1,706,243
Top Place		**1,361,864**		1,361,864
Best Value		**163,888**		163,887
		291,334,509		281,163,366
Allowance for impairment	**(**	**6,230,675)**	(	6,230,675)
	P	**285,103,834**	P	274,932,691

13.2 Other Resources

This account consists of:

	Note		2017		2016
Goodwill – net	13.2.1	**P**	**268,655,069**	P	268,655,069
Computer software – net	13.2.2		**154,987,556**		105,046,405
Prepaid expenses	13.2.4		**150,806,400**		143,429,563
Security deposits	13.2.3		**96,822,108**		92,715,315
Electronic documentary stamp			**43,973,239**		40,547,191
Miscellaneous	13.2.5		**107,989,960**		82,548,126
			823,234,332		732,941,669
Allowance for impairment		**(**	**31,106,536)**	(	31,106,536)
		P	**792,127,796**	P	701,835,133

13.2.1 Goodwill

The carrying amount of Goodwill as of December 31, 2017 and 2016 is shown below.

Cost	P	338,461,579
Allowance for impairment	(	69,806,510)
	P	**268,655,069**

The Bank recognized goodwill arising from its acquisition of the net assets of another bank from which the Bank had expected future economic benefits and synergies that will result from combining the operations of the acquired bank with that of the Bank. Goodwill is subject to annual impairment testing and whenever there is an indication of impairment.

In 2017 and 2016, the Bank engaged a third party consultant to perform an independent impairment testing of goodwill. The third party consultant's methodology is in accordance with PAS 36, *Impairment of Assets*. The assessment of impairment of goodwill is based on fair value less cost to sell (FVLCTS) of the CGU (the Bank itself inclusive of all the acquired assets and liabilities from the acquiree-bank) to which the goodwill is attributed. In determining the FVLCTS of the CGU, discounted cash flows method was used. Some of the key assumptions that have been considered which have significant impact on the results of the determination of FVLCTS are as follows:

- the Bank will continue as a going concern entity and will have sufficient financial resources to finance its working capital requirements to achieve its projected forecast and to support its business needs;
- the Bank's performance forecasts for the next five years from the end of each reporting period;
- in estimating the terminal value of the CGU, long-term growth rates at 7.00% and 6.00% (based on forecasted gross domestic product growth rate) as of December 31, 2017 and 2016, respectively, were used; and,
- in discounting the projected free cash flows, weighted average cost of capital of 10.48% and 11.80% was used in 2017 and 2016, respectively, and an estimated cost of disposal of 3.00%.

On the basis of the report of the third party consultant dated January 28, 2018 and January 30, 2017, with valuation date as of the end of 2017 and 2016, respectively, the CGU's FVLCTS amounted to P60,411.3 million and P61,038.7 million, respectively. The Bank has assessed that the recoverable amount of the goodwill exceeds its carrying amount as of December 31, 2017 and 2016. Accordingly, no additional impairment loss is required to be recognized in 2017 and 2016.

13.2.2 Computer Software

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of ten and five years in 2017 and 2016, respectively. The carrying amount of Computer software as of December 31 is shown below.

	2017	2016
Cost	**P 413,684,708**	P 339,695,710
Accumulated amortization	**(258,697,152)**	(234,649,305)
	P 154,987,556	P 105,046,405

A reconciliation of the carrying amounts of computer software at the beginning and end of 2017 and 2016 is shown below.

	2017	2016
Balance at the beginning of year	P 105,046,405	P 143,467,746
Additions	73,988,998	21,402,714
Adjustments	467,578	94,258
Amortization charges for the year	(24,515,425)	(59,918,313)
Balance at end of year	P 154,987,556	P 105,046,405

Amortization of computer software is presented as part of Information technology under Other Operating Expenses account in the statements of profit or loss (see Note 19.2).

13.2.3 Security Deposits

Security deposits include refundable deposits and advance rentals for the lease of various Bank branches from several parties, including deposits with utility companies.

13.2.4 Prepaid Expense

Prepaid expense includes unexpired portion of property and other non-life insurance and prepaid system maintenance.

13.2.5 Miscellaneous

Miscellaneous include advance rentals, rejected check and other clearing items and creditable withholding tax.

The expected recovery period of the Bank's asset held-for-sale and disposal group and other resources is as follows:

	2017	2016
Within one year	P 856,746,346	P 1,131,327,691
Beyond one year	598,265,636	1,446,069,998
	P 1,455,011,982	P 2,577,397,689

14. DEPOSIT LIABILITIES

This account consists of the following deposits:

	2017	2016
Time	P 64,362,101,552	P 61,805,014,906
Savings	25,460,792,049	23,395,238,936
Demand	11,861,664,973	9,560,462,555
	P 101,684,558,574	P 94,760,715,397

The maturity profile of the Bank's deposit liabilities is as follows (see also Note 23.4):

	2017	2016
Within one year	**P 17,533,229,667**	P 15,772,191,941
Beyond one year	**84,151,328,906**	78,988,523,456
	P 101,684,558,574	P 94,760,715,397

Deposit liabilities are in the form of savings, demand and time deposits with annual interest rates of 1.38% to 4.75% both in 2017 and 2016.

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.00%. The Bank is in compliance with these regulations. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. Available reserves as of December 31, 2017 and 2016 amounted to P8,334.3 million and P7,916.0 million, respectively, and included as part of Due from BSP in the statements of statements of financial position (see Note 7).

15. BILLS PAYABLE

This account pertains to the Bank's borrowed funds and other borrowings from RCBC, RCBC Capital Corporation, a related party under common ownership (see Note 23.3), and the BSP. In 2017 and 2016, the Bank obtained various bills payable with total principal amount of P820.0 million and P67,981.0 million, respectively, which were subsequently repaid in full. Bills payable has a maturity of one to five days in 2017 and 2016. The Bank has no outstanding bills payable as of December 31, 2017 and 2016.

Interbank bills payable, which are overnight borrowings, are charged with annual interest rate of 2.53% to 2.56% in 2017 and 2016. Interest expense on bills payable amounted to P1.6 million and P20.9 million in 2017 and 2016, respectively, as presented in the statements of profit or loss.

None of the Bank's assets pledged as security for these borrowings.

16. MANAGER'S CHECK PAYABLE

This account pertains to the aggregate amount of outstanding checks drawn by the Bank upon itself as of the end of each reporting period. This payable is expected to be settled within one year from the end of each reporting date.

17. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of accruals for:

		2017		2016
Interests	P	**278,207,101**	P	219,863,090
Litigation costs		**209,768,411**		291,590,452
PDIC fees		**96,823,714**		84,595,827
Utilities and rent		**91,072,470**		171,858,491
Income and other taxes		**81,637,524**		138,316,432
Repairs and maintenance		**16,032,455**		13,071,137
Advertising costs		**5,949,279**		30,099,373
Other expenses		**91,510,426**		89,964,890
	P	**871,001,380**	P	1,039,359,692

Other expenses pertain to accrual for professional fees, utilities, security, janitorial services and other expenses.

The expected settlement period of the Bank's accrued interest, taxes and other expenses is as follows:

		2017		2016
Within one year	**P**	**871,001,380**	P	988,100,626
Beyond one year		**-**		51,259,066
	P	**871,001,380**	P	1,039,359,692

18. OTHER LIABILITIES

This account consists of:

	Note		2017		2016
Accounts payable		**P**	**2,332,254,071**	P	1,720,692,830
Post-employment defined benefit obligation	21.2		**61,954,425**		177,996,491
Sundry credits			**29,811,582**		5,069,656
Payment orders			**11,959,156**		23,551,995
Miscellaneous			**159,472,686**		126,711,407
		P	**2,595,451,920**	P	2,054,022,379

Accounts payable is mainly comprised of outstanding short-term payables to various third party vendors for purchases of goods and services used in operations including payable to contractors for the Bank's on-going construction works for its premises.

Miscellaneous liabilities mainly pertain to dormant manager's check payables and other deferred credits.

The expected settlement period of the Bank's other liabilites is as follows:

		2017		2016
Within one year	**P**	**2,512,590,809**	P	1,924,049,400
Beyond one year		**82,861,111**		129,972,979
	P	**2,595,451,920**	P	2,054,022,379

19. OTHER INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

19.1 Other Income

	Notes		2017		2016
Income from trust business	24	**P**	**53,037,321**	P	51,740,452
Trading gains – net	8.1		**16,686,419**		13,881,058
Miscellaneous			**17,432,916**		4,265,074
		P	**87,156,656**	P	69,886,584

Miscellaneous includes rentals received on safety deposit boxes and leasing bank properties.

19.2 Miscellaneous Expenses

	Notes		2017		2016
Professional and management fees		**P**	**128,223,412**	P	92,573,940
Information and technology	13.2.2		**107,544,127**		114,756,064
Rent on equipment			**102,395,868**		108,247,254
Communication			**96,458,322**		129,949,945
Fuel and lubricant			**85,756,502**		92,547,021
Advertisement			**76,565,480**		54,532,912
Corporate activities			**52,856,012**		88,825,236
Stationary and supplies			**51,453,074**		38,206,648
Sundry credits			**49,414,881**		28,663,659
Supervision and examination			**42,884,365**		45,988,185
Repairs and maintenance			**30,360,729**		29,315,249
Entertainment, amusement and recreation			**19,168,094**		24,293,450
Commission			**14,649,940**		18,094,698
Foreign currency losses – net			**2,046,105**		4,463,819
Miscellaneous	21.2		**75,993,839**		7,172,985
		P	**935,770,750**	P	877,631,065

Miscellaneous includes fines, penalties and other charges.

20. EQUITY AND CAPITAL MANAGEMENT

20.1 Capital Stock

Capital stock as of December 31, 2017 and 2016 consists of:

	Shares		Amount
Common stock – P100 par value			
Authorized – 50,000,000 shares			
Issued and outstanding	**30,872,163**	**P**	**3,087,216,300**

As of December 31, 2017 and 2016, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

20.2 Surplus

While unappropriated surplus available for dividend declaration exceeded its paid-in-capital as of December 31, 2017, such excess is appropriate as the Bank is required to comply and maintain certain minimum capital adequacy requirements as prescribed by the BSP.

There is no dividend declaration for both 2017 and 2016.

20.3 Revaluation Reserves

Revaluation reserves pertain only to the accumulated remeasurements of post-employment defined benefit plan (see Note 21.2).

20.4 Capital Management

(a) Regulatory Capital

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

In implementing current capital requirements, the BSP requires the Bank 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 bank and quasi-banks, in accordance with the Basel III standards.
BSP 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 Bank to maintain at all times the following:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,

- Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

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 Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, defined as follows, subject to deductions as defined in relevant regulations:

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

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

(ii) AT1 Capital includes:

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

(iii) Tier 2 Capital includes:

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

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

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

	2017	2016
Tier 1 Capital	**P 10,152,965,697**	P 8,981,737,602
Tier 2 Capital	**599,885,716**	529,885,716
Total Regulatory Qualifying Capital	**P 10,752,851,413**	P 9,511,623,318
Total Risk-Weighted Assets	**P 76,631,205,359**	P 70,746,637,959
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**14.03%**	13.44%
Total Tier 1 expressed as percentage of total risk-weighted assets	**13.25%**	12.70%

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

(b) Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degrees of risk associated with difference activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity not falling below the minimum requirement for regulatory purposes.

The process of allocation of capital to specific operations and activities is undertaken independently of those responsible of the operation, and is subject to review by the Bank's RMC. Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account profitability is also taken, and synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic goals and objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

(c) Minimum Capital Requirement

Under existing BSP regulation, thrift banks with head office in the National Capital Region are required to comply with the minimum capital requirement of P2.0 billion.

The Bank has complied with the above minimum capital requirement at the end of each reporting period.

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

Expenses recognized for employee salaries and other employee benefits are presented below.

	2017	2016
Short-term employee benefits	**P 1,209,962,043**	P 1,117,172,979
Post-employment defined benefit plan	**61,389,619**	64,664,291
	P 1,271,351,662	P 1,181,837,270

21.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Bank's Trust Department covering all regular full-time employees. The Trust Department manages the fund in coordination with the Bank's RMD who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 55 with a minimum of 20 years of credited service and late retirement after age 60, both subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(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 report obtained from an independent actuary in 2017 and 2016.

The post-employment defined benefit obligation as of December 31, 2017 and 2016, reported as part of Other Liabilities in the statements of financial position (see Note 18), is determined as follows:

	2017	2016
Present value of obligation	**P 671,412,959**	P 696,592,344
Fair value of plan assets	**(609,458,534)**	(518,595,853)
	P 61,954,425	P 177,996,491

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

	2017	2016
Balance at beginning of year	**P 696,592,344**	P 676,303,972
Current service cost	**61,389,619**	64,664,291
Interest expense	**37,476,668**	34,153,351
Remeasurement – actuarial gains arising from:		
Changes in financial assumptions	**(90,201,433)**	(9,574,095)
Experience adjustments	**(7,032,857)**	(22,355,918)
Benefits paid	**(26,811,382)**	(46,599,257)
Balance at end of year	**P 671,412,959**	P 696,592,344

The movements in the fair value of plan assets are presented below.

	2017	2016
Balance at beginning of year	**P 518,595,853**	P 540,977,544
Contributions to the plan	**100,000,000**	-
Interest income	**29,869,231**	26,142,735
Return on plan assets (excluding amounts included in net interest)	**(12,195,168)**	(1,925,169)
Benefits paid	**(26,811,382)**	(46,599,257)
Balance at end of year	**P 609,458,534**	P 518,595,853

Actual returns on plan assets were P17.7 million in 2017 and P24.2 million in 2016. The composition of the fair value of plan assets at the end of each reporting period by category and risk characteristics is shown below.

	2017	2016
Cash and cash equivalents	**P 69,722,056**	P 44,443,665
Loans and other receivables	**17,369,569**	14,935,560
Equity securities - retail and manufacturing	**150,719,095**	132,812,398
Mutual funds/Unit Investment Trust Fund (UITF)	**21,574,832**	18,306,434
Debt securities:		
Corporate bonds	**292,661,988**	236,116,692
Philippine government bonds	**57,410,994**	71,981,104
	350,072,982	308,097,796
	P 609,458,534	P 518,595,853

The fair values of the above equity securities and government and corporate bonds are determined based on quoted market prices in active market (classified as Level 1 of the fair value hierarchy), while the fair value of mutual funds (classified as Level 2 of the fair value hierarchy) are generally measured based on the net asset value of the investment comprising the fund. The fair value of real estate properties do not have quoted prices and have been determined based on professional appraisals that is classified as Level 3 of the fair value hierarchy.

Plan assets, except for cash and cash equivalents maintained with the Bank (see Note 23.5), do not comprise any of the Company's nor its related parties' financial instruments, or any assets occupied and/or used in its operations.

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

		2017		2016
Reported in profit or loss:				
Current service cost	**P**	**61,389,619**	P	64,664,291
Net interest expense		**7,607,437**		8,010,616
	P	**68,997,056**	P	72,674,907
Reported in other comprehensive income:				
Actuarial gains arising from:				
Changes in financial assumptions	**P**	**90,201,433**	P	9,574,095
Experience adjustments		**7,032,857**		22,355,918
Return on plan assets (excluding amounts included in net interest expense)		**(12,195,168)**		(1,925,169)
	P	**85,039,122**	P	30,004,844

The net interest expense is included as part of Miscellaneous account under Other Operating Expenses in the statements of profit or loss (see Note 19.2).

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.
In determining the amounts of post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2017	2016
Discount rates	**5.73%**	5.38%
Expected rate of salary increases	**4.00%**	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual after retiring at the Bank's normal retiring age of 60 is based on the 1994 Group Annuity Mortality 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 a 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 Bank 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 loans and receivables and 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 are significantly invested in cash and cash equivalents, debt securities, equity securities, and mutual and UITF. Due to the long-term nature of the plan obligation, a level of continuing investments in debt and equity securities is an appropriate element of the Bank'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 Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2017 and 2016:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2017			
Discount rate	**+/- 1%**	**P 69,798,980**	**(P 55,587,820)**
Salary growth rate	**+/- 1%**	**63,510,871**	**(59,790,408)**
December 31, 2016			
Discount rate	+/- 1%	P 30,092,497	(P 27,058,528)
Salary growth rate	+/- 1%	23,434,063	(21,327,195)

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 sensitivity analysis in the preceding page, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to ensure that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in debt and equity instruments with sound fundamentals that are readily convertible to cash that match the benefit payments as they fall due and in the appropriate currency.

The Bank 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, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A larger portion of the plan assets as of December 31, 2017 and 2016 consists of cash and cash equivalents, debt securities and equity securities. The Bank believes that equity securities offer the best returns over the long term with an acceptable level of risk. Equity securities are invested in reputable listed corporations in the Philippines. While no significant change in asset allocation are expected in the next reporting period, the trustee may make changes anytime to respond to environmental changes to ensure keeping alignment to the Bank's retirement plan strategies.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P62.0 million based on the latest actuarial valuation. While there are no minimum funding requirements in the country, the size of the underfunding may pose a cash flow risk in about five to ten years' time when a significant number of employees is expected to retire.

As of December 31, 2017 and 2016, the maturity profile of undiscounted expected benefit payments from the plan follows:

		2017		2016
Less than one year	**P**	**26,347,987**	P	17,211,854
More than one year to five years		**215,771,174**		86,729,271
More than five years to ten years		**364,782,612**		218,104,497
	P	**606,901,773**	P	322,045,622

The weighted average duration of the defined benefit obligation at the end of the reporting period is 9.7 years.

The Bank expects to contribute P100.0 million to the retirement plan in 2018.

22. TAXES

22.1 Current and Deferred Taxes

Under Philippine tax laws, the Bank is 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). The Bank's liability for GRT and DST is based on the related regulations issued by the authorities.

Tax expense account presented in the statements of profit or loss include the corporate income tax discussed in the succeeding sections, and final tax paid at the applicable rates of 20.0% and 7.5%, which represent the final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax (RCIT) rate applicable is 30%. 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 future regular income tax liability for the next three consecutive years. In addition, any net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years.

Effective May 2004, under RA No. 9294, the income derived by the FCDU from foreign currency transactions with nonresidents, offshore banking units (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 OBUs is subject to 7.5% final tax.

The components of current tax expense reported in the statements of profit or loss for the years ended December 31 are as follows:

	2017	2016
Current tax expense:		
Excess MCIT at 2% over RCIT at 30% – RBU	**P 50,010,503**	P -
Final tax at 20%, 10% and 7.5%	**48,541,750**	(9,161,714)
RCIT at 30% – RBU	**17,794,756**	130,148,362
RCIT at 30% – FCDU	**221,803**	282,286
	116,568,812	121,268,934
Deferred tax income relating to origination of temporary differences	**(85,150,968)**	(91,768,136)
	P 31,417,844	P 29,500,798

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

	2017	2016
Tax on pretax profit at 30%	**P 414,496,849**	P 310,392,422
Adjustment for income subjected to lower income tax rates	**(45,944,308)**	(60,992,382)
Tax effects of:		
Non-taxable income	**(365,167,951)**	(309,260,683)
Non-deductible interest expense	**31,207,435**	17,322,116
Other non-deductible expenses	**14,596,481**	63,118,310
Unrecognized deferred tax assets	**(12,180,972)**	96,843,701
Income from FCDU	**(10,836,377)**	(18,720,272)
Recognition of previously unrecognized deferred tax assets	**5,246,687**	(69,202,414)
	P 31,417,844	P 29,500,798

In 2017 and 2016, the Bank recognized deferred tax assets on its allowances for impairment losses as management believes and estimates that future taxable profits will be available to allow such deferred tax asset to be recovered.

	Statements of Financial Position		**Profit or Loss**	
	2017	2016	**2017**	2016
Allowance for impairment:				
Loans and other receivables	**P 700,293,600**	P 620,769,305	**(P 79,524,295)**	(P 92,058,616)
Investment properties	**30,417,767**	67,802,974	**37,385,207**	(48,757,195)
Assets held-for-sale and disposal group	**33,818,614**	55,662,586	**21,843,972**	49,047,675
MCIT	**50,010,503**	-	**(50,010,503)**	-
Unamortized past service cost	**14,845,349**	-	**(14,845,349)**	-
Deferred Tax Asset	**P 829,385,833**	P 744,234,865		
Deferred Tax Income			**(P 85,150,968)**	(P 91,768,136)

For other temporary differences, the Bank did not recognize their corresponding deferred tax assets since management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from these temporary differences can be utilized.

Shown below are the temporary differences as of December 31 for which no deferred tax assets were recognized.

	2017		2016	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment:				
Loans and other receivables	**P 290,969,441**	**P 87,290,832**	P 123,672,595	P 37,101,778
Other resources	**100,913,048**	**30,273,914**	100,913,046	30,273,914
Assets held-for-sale and disposal group	**6,230,677**	**1,869,203**	6,230,677	1,869,202
Trading and investment securities	**-**	**-**	60,097,191	18,029,157
Provisions for lawsuits	**209,768,411**	**62,930,523**	291,590,452	87,477,136
Post-employment defined obligation	**61,954,425**	**18,586,328**	177,996,491	53,398,947
Unamortized past service cost	**-**	**-**	17,488,955	5,246,687
	P 669,836,002	**P 200,950,800**	P 777,989,407	P 233,396,821

In 2017 and 2016, the Bank claimed itemized deductions in computing for its income tax due.

22.2 Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011

The BIR issued RR No. 15-2010 1869and RR No. 19-2011 which requires certain information on taxes to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure as part of the basic financial statements prepared in accordance with PFRS; it is neither a requird disclosure under the SEC rules and regulations covering the form and content of financial statements under the Securities Regulation Code Rule 68.

The Bank, however, decided to present the required tax information require by the BIR as a supplemental schedule filed separately from the basic financial statements.

23. RELATED PARTY TRANSACTIONS

The Bank's related parties include PMMIC, its Parent Bank, its subsidiaries and entities under common ownership by RCBC, key management personnel and others as described below.

A summary of the Bank's transactions and outstanding balances of such transactions with its related parties as of and for the years ended December 31, 2017 and 2016 is presented below and in the next page.

		2017		2016	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Bank					
Due from other banks	23.2	**P 978,455,390**	**P 1,053,043,503**	P 751,578,310	P 1,402,802,276
Bills payable	23.3	**-**	**-**	51,845,254,039	-
Deposit liabilities	23.4	**(30,301,574)**	**131,273,707**	(304,899)	161,316,326
Income –					
Interest on due from other banks	23.2	**2,564,881**	**-**	1,378,429	-
Expenses:					
Interest on deposit liabilities	23.4	**258,956**	**-**	290,454	-
Interest on bills payable	23.3	**(7,832,589)**	**-**	7,832,589	-
Management fees and audit fees	23.6	**-**	**-**	730,000	-
Occupancy expense	23.6	**139,892,056**	**-**	134,604,887	-
Related Party Under Common Ownership					
Bills payable	23.3	**470,000,000**	**-**	12,455,000,000	-
Deposit liabilities	23.4	**5,555,047**	**32,829,713**	(2,723,659)	33,774,952
Expenses:					
Interest on deposit liabilities	23.4	**51,969**	**-**	51,122	-
Interest on bills payable	23.3	**165,235**	**-**	1,718,699	-
Subsidiaries					
Deposit liabilities	23.4	**30,732,214**	**168,214,882**	13,767,527	137,356,794
Expenses –					
Interest on deposit liabilities	23.4	**485,874**	**-**	407,930	-
Retirement Fund					
Plan assets	23.5	**100,000,000**	**609,458,534**	-	518,595,853
Other Related Parties					
Deposit liabilities	23.4	**(4,195,528)**	**33,703,655**	9,500,210	51,810,984
Expenses –					
Interest on deposit liabilities	23.4	**119,178**	**-**	296,153	-

Related Party Category	Notes	2017 Amount of Transaction	2017 Outstanding Balance	2016 Amount of Transaction	2016 Outstanding Balance
Key Management Personnel					
Compensation	23.7	P **102,033,433**	**P 13,968,421**	**P** 104,845,607	P 14,713,000
Loans receivable	23.1	**929,389**	**4,352,234**	1,651,651	3,031,144
Deposit liabilities	23.4	**(195,169)**	**4,501,958**	113,444	6,632,898
Income –					
Interest on loans	23.1	**391,701**	**-**	272,803	-
Expense –					
Interest on deposit liabilities	23.4	**21,524**	**-**	33,290	-

None of the Bank's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

23.1 Directors, Officers, Shareholders and Related Interest (DOSRI)

In the ordinary course of business, the Bank has loans and other transactions with certain DOSRI, the Bank's key management and RCBC as shown below. Under existing policies of the Bank, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under existing BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the individual's deposit and the investment book value in the Bank. In aggregate, loans to DOSRI, generally, should not exceed the total equity or 15% of the loan portfolio of the Bank.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts and new DOSRI loans, other credit accommodations and guarantees granted as of December 31, 2016 (nil for 2017):

Total outstanding DOSRI loans (all secured)	P 2,286,021
Interest costs	233,623
Percentage of DOSRI to total loans	0.005%
Percentage of unsecured DOSRI to total DOSRI loans	-

The remaining outstanding balance as of December 31, 2017 and 2016 amounting to P4.4 million and P0.7 million includes outstanding loans under fringe benefit program granted to the Bank's officers.

There are no past due and non-accruing DOSRI loans outstanding as of December 31, 2017 and 2016; as such, no impairment loss has been recognized in 2017 and 2016.

As of December 31, 2017 and 2016, the Bank is in compliance with the existing BSP regulations on DOSRI.

23.2 Bank Deposits and Short-term Placements

The Bank has deposit accounts and short-term placements with RCBC which are presented as part of Due from Other Banks account in the statements of financial position (see Note 7.3). These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors.

23.3 Bills Payable and Interbank Loans to Related Parties

The Bank, in the normal course of business, transacts with RCBC and certain related parties under common ownership composed partly of receivables and payables which are presented as part of Loans and Receivable and Bills Payable accounts, respectively, in the statements of financial position (see Notes 9 and 15).

Bills payable pertains to overnight borrowings which are charged with interest rates same as the prevailing range of interests for borrowed funds from other local banks (see Note 15).

As of December 31, 2017 and 2016, there were no outstanding balances of interbank loans receivables from related parties. Also, the Bank has no outstanding bills payable as of December 31, 2017 and 2016.

23.4 Deposit Liabilities

Certain related parties maintain deposit accounts and placements with the Bank, which are included as part of Deposit Liabilities account in the statements of financial position (see Note 14). Such accounts are interest-bearing and subject to normal banking terms and conditions applied by the Bank to ordinary depositors.

23.5 Transactions with the Retirement Fund

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2017 and 2016, as well as the amounts contributed by the Bank, are shown in Note 21.2.

The total deposits of the retirement fund to the Bank amount to P69.7 million and P44.4 million as of December 31, 2017 and 2016, respectively. The related interest expenses recognized by the Bank from these deposits amounted to P2.1 million in 2017 and P1.7 million in 2016.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restriction or liens.

23.6 Expenses Paid to RCBC

The Bank pays to RCBC for its share of the management and professional fees which was initially paid by the latter. Also, the Bank is charged of occupancy expense for its share in the expenses incurred for services and operations performed by RCBC for its subsidiaries. Billing is made on a monthly basis and is paid by the Bank through issuance of manager's check.

In October 2013, RCBC and the Bank entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of P6.4 million. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 (see Note 26.1).

23.7 Key Management Compensation

Compensation provided to the Bank's key management personnel follows:

	2017	2016
Short-term employee benefits	**P 88,065,012**	P 90,132,607
Post-employment defined benefits	**13,968,421**	14,713,000
	P 102,033,433	P 104,845,607

24. TRUST OPERATIONS

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacity for clients and beneficiaries are not reflected in the statements of financial position since these are not resources of the Bank. The total resources held by the Bank's Trust Department amounted to P27.2 billion and P23.5 billion as of December 31, 2017 and 2016, respectively (see Note 26.2).

In connection with the trust operations of the Bank, government securities are regularly purchased by the Bank with a total face value of P310.0 million and P249.0 million as of December 31, 2017 and 2016, respectively, and are deposited with the BSP. These government securities deposits with BSP are presented as part of Due from BSP in the statements of financial position (see Note 7.2).

Income from trust operations amounted to P53.0 million and P51.7 million for the years ended December 31, 2017 and 2016, respectively, and is shown as part of Other Operating Income in the statements of profit or loss (see Note 19.1). In compliance with existing BSP regulations, 10% of the Bank's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve from trust business equals 20% of the Bank's regulatory capital. The appropriation is shown as Reserve for Trust Business in the statements of changes in equity.

25. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following basic indicators and ratios measure the financial performance of the Bank:

	2017	2016
Return on average equity:		
$\frac{\text{Net profit}}{\text{Average total equity accounts}}$	**12.00%**	10.02%
Return on average resources:		
$\frac{\text{Net profit}}{\text{Average total resources}}$	**1.19%**	1.00%

	2017	2016
Net interest margin:		
Net interest income / Average interest earning resources	**5.00%**	5.30%
Debt-to-equity ratio:		
Total liabilities / Total equity	**8.84 : 1.00**	9.33 : 1.00

26. COMMITMENTS AND CONTINGENCIES

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

26.1 Lease Commitments – Bank as a Lessee

The Bank leases the premises of its Head Office (see Note 23.6) and branches from one to 20 years terms, renewable under certain terms and conditions. Rental under these lease contracts amounting to P276.4 million in 2017 and P262.7 million in 2016, is included as part of Occupancy account in the statements of profit or loss.

As of December 31, future minimum rentals payable under these non-cancellable operating leases follow:

	2017	2016
Within one year	**P 230,067,225**	P 248,498,713
More than one year but not more than five years	**247,237,373**	353,652,740
More than five years	**36,149,471**	35,240,016
	P 513,454,069	P 637,391,469

26.2 Others

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not reflected in the financial statements. Management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

The following is a summary of various contingencies and commitments arising from off-statement of financial position items of the Bank:

	Note	2017	2016
Trust department accounts	24	**P 27,190,429,739**	P 23,543,804,631
Spot exchange contracts sold		**109,846,000**	149,160,000
Late deposits/payments received		**132,696,208**	121,445,833
Performance standby letters of credit		**64,593,422**	58,625,500
Outward bills for collection		**354,543**	2,122,051
Items held as collateral		**76,066**	71,296
Items held for safekeeping		**6,632**	8,499