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S.E.C. Registration Number

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C	O	R	P	O	R	A	T	I	O	N	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S

(Company's Full Name)

Y	U	C	H	E	N	G	C	O	T	O	W	E	R	,	R	C	B	C	P	L	A	Z	A		
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Contact Person

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Company Telephone Number

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*Month*    *Day*

Fiscal Year

1	7	Q
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FORM  
TYPE

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*Month*    *Day*

Annual Meeting

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Secondary License Type, If  
Applicable

S	E	C
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Dept. Requiring this  
Doc.

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Amended Articles Number/Section

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Total No. of  
Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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SEC Number 17514  
PSE Code \_\_\_\_\_  
File Number \_\_\_\_\_

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**RIZAL COMMERCIAL BANKING  
CORPORATION AND SUBSIDIARIES**

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(Company's Full Name)

**Yuchengco Tower, RCBC Plaza  
6819 Ayala Ave. corner Sen. Gil J. Puyat Ave., Makati City**

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(Company's Address)

**8894-9000**

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(Telephone Number)

**September 30, 2020**

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(Fiscal Quarter Ending)

**SEC FORM 17-Q**

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Form Type

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Amendment Designation (if applicable)

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Period Ended Date

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(Secondary License Type and File Number)

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## TABLE OF CONTENTS

	<b>Page Number</b>
<b>PART I – FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	5
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	41
<b>PART II – OTHER INFORMATION</b>	
<b>SIGNATURES</b>	48
<b>AGING OF ACCOUNTS RECEIVABLES</b>	49

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**

**STATEMENTS OF FINANCIAL POSITION**

*(Amounts in Millions of Philippine Pesos)*

		<u>9/30/2020</u>	<u>12/31/2019</u>
	<u>Notes</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
<b><u>RESOURCES</u></b>			
CASH AND OTHER CASH ITEMS		P 12,758	P 16,907
DUE FROM BANGKO SENTRAL NG PILIPINAS		91,430	87,255
DUE FROM OTHER BANKS		13,962	18,818
LOANS UNDER REVERSE REPURCHASE AGREEMENT		13,666	5,768
INVESTMENT SECURITIES	3	66,132	160,719
LOANS AND RECEIVABLES - Net	4	505,401	449,219
INVESTMENTS IN ASSOCIATES - Net		324	444
BANK PREMISES, FURNITURE, FIXTURES & EQUIPMENT- Net		10,692	11,059
INVESTMENT PROPERTIES - Net		3,806	4,142
DEFERRED TAX ASSETS		2,341	2,140
OTHER RESOURCES - Net	5	<u>10,492</u>	<u>10,608</u>
<b>TOTAL RESOURCES</b>		<b><u>P 731,003</u></b>	<b><u>P 767,079</u></b>
<b><u>LIABILITIES AND CAPITAL FUNDS</u></b>			
DEPOSIT LIABILITIES	6	496,831	456,581
BILLS PAYABLE	7	14,871	101,606
BONDS PAYABLE	8	90,932	96,814
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		5,884	6,202
OTHER LIABILITIES	9	<u>22,992</u>	<u>23,026</u>
<b>Total Liabilities</b>		<b><u>631,510</u></b>	<b><u>684,229</u></b>
<b>CAPITAL FUNDS</b>			
<b>Attributable to Parent Company Shareholders:</b>			
Preferred Stock		3	3
Common Stock		22,509	22,509
Hybrid Perpetual Securities	11.1	14,471	-
Capital Paid in Excess of Par		42,568	42,568
Treasury Shares		( 13,719 )	( 13,719 )
Other Comprehensive Income:			
Net Unrealized Gains/(Losses) on Financial Assets At Fair Value Through Other Comprehensive Income		126	894
Cumulative Translation Adjustment		54	53
Retirement plan		( 3,125 )	( 3,140 )
Reserve for Trust Business		495	485
Other Reserves		( 97 )	( 97 )
Retained Earnings Appropriated for General Provision		3,450	3,132
Retained Earnings		28,737	24,755
Net Profit for the period		<u>4,002</u>	<u>5,388</u>
		99,475	82,831
<b>Non-controlling Interest</b>		<u>18</u>	<u>19</u>
<b>Total Capital Funds</b>		<b><u>99,493</u></b>	<b><u>82,850</u></b>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>		<b><u>P 731,003</u></b>	<b><u>P 767,079</u></b>

*See Notes to Interim Financial Statements.*

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**

**STATEMENTS OF INCOME**

*(Amounts in Millions of Philippine Pesos, Except Per Share Data)*

		1/1/2020 to 9/30/2020	1/1/2019 to 9/30/2019	7/1/2020 to 9/30/2020	7/1/2019 to 9/30/2019
	Note	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>INTEREST INCOME ON</b>					
Loans and receivables	P	25,984	P 24,086	8,605	P 8,369
Investment securities		1,544	3,753	331	892
Others		749	219	285	64
		<u>28,277</u>	<u>28,057</u>	<u>9,222</u>	<u>9,326</u>
<b>INTEREST EXPENSE ON</b>					
Deposit liabilities		4,388	6,851	1,114	1,958
Bills payable and other borrowings		4,230	4,823	1,243	1,609
		<u>8,618</u>	<u>11,674</u>	<u>2,357</u>	<u>3,567</u>
<b>NET INTEREST INCOME</b>		19,659	16,383	6,865	5,759
<b>IMPAIRMENT LOSSES - Net</b>		<u>7,222</u>	<u>5,212</u>	<u>2,019</u>	<u>2,529</u>
<b>NET INTEREST INCOME AFTER</b>		<u>12,437</u>	<u>11,171</u>	<u>4,846</u>	<u>3,230</u>
<b>OTHER OPERATING INCOME</b>					
Trading and securities gain - net		5,858	6,773	185	3,610
Service fees and commissions		2,420	2,881	829	930
Trust fees		234	231	77	77
Foreign exchange gains - net		446	309	214	198
Miscellaneous	12	737	1,153	326	403
		<u>9,695</u>	<u>11,347</u>	<u>1,631</u>	<u>5,218</u>
<b>OTHER OPERATING EXPENSES</b>					
Employee benefits		5,017	5,203	1,619	1,787
Occupancy and equipment-related		2,040	2,219	694	883
Taxes and licenses		2,458	2,424	739	947
Depreciation and amortization		2,172	1,786	740	508
Miscellaneous	12	4,684	4,648	1,568	1,648
		<u>16,371</u>	<u>16,280</u>	<u>5,360</u>	<u>5,773</u>
<b>PROFIT BEFORE TAX</b>		5,760	6,237	1,117	2,675
<b>TAX EXPENSE</b>		<u>1,759</u>	<u>1,724</u>	<u>225</u>	<u>824</u>
<b>NET PROFIT</b>		4,001	4,513	892	1,851
<b>NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>		( 1 )	1	( 1 )	0
<b>NET PROFIT ATTRIBUTABLE TO PARENT</b>					
<b>COMPANY SHAREHOLDERS</b>		<u>P 4,002</u>	<u>P 4,512</u>	<u>893</u>	<u>P 1,851</u>
<b>Earnings Per Share (Annualized)</b>					
Basic		<u>P 2.70</u>	<u>P 3.12</u>		
Diluted		<u>P 2.70</u>	<u>P 3.12</u>		

*See Notes to Interim Financial Statements*

**STATEMENTS OF COMPREHENSIVE INCOME**  
*(Amounts in Millions of Philippine Pesos)*

	1/1/2020 to 9/30/2020 (Unaudited)	1/1/2019 to 9/30/2019 (Unaudited)
<b>NET PROFIT FOR THE PERIOD</b>	<b><u>P 4,001</u></b>	<b><u>P 4,513</u></b>
<b>OTHER COMPREHENSIVE INCOME (LOSSES) DURING THE PERIOD:</b>		
Fair value (losses) gains on Financial assets at Other Comprehensive Income	( 768 )	557
Retirement plan	15 ( 98 )	
Translation adjustments on foreign operations	<u>1</u>	<u>0</u>
<b>Other Comprehensive (Loss) Income for the period</b>	<b>( <u>751</u> )</b>	<b><u>459</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>P 3,250</u></b>	<b><u>P 4,972</u></b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST</b>	<b>( <u>0</u> )</b>	<b>( <u>7</u> )</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS</b>	<b><u><u>P 3,250</u></u></b>	<b><u><u>P 4,980</u></u></b>

*See Notes to Interim Financial Statements.*

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

	1/1/2020 to 9/30/2020	1/1/2019 to 9/30/2019
	(Unaudited)	(Unaudited)
<b>ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS</b>		
<b>PREFERRED STOCK</b>		
Balance, beginning	3	3
Issuance (Conversion) of preferred stock	-	( 0)
Balance, end	<u>3</u>	<u>3</u>
<b>COMMON STOCK</b>		
Balance, beginning	22,509	22,509
Conversion of preferred stock to common stock	-	0
Balance, end	<u>22,509</u>	<u>22,509</u>
<b>HYBRID PERPETUAL SECURITIES</b>		
Balance, beginning	-	-
Issuance during the year	14,471	-
Balance, end	<u>14,471</u>	<u>-</u>
<b>CAPITAL PAID IN EXCESS OF PAR</b>		
Balance, beginning	42,568	42,627
Conversion of preferred stock to common stock	0	0
Excess of consideration given over cost of common shares issued	-	( 59)
Balance, end	<u>42,568</u>	<u>42,568</u>
<b>TEASURY SHARES, At Cost</b>	( <u>13,719</u> )	( <u>13,719</u> )
<b>NET UNREALIZED GAINS/(LOSSES) ON FINANCIAL ASSETS AT OTHER COMPREHENSIVE INCOME</b>		
Beginning balance	894	1,555
Fair value gains (losses) during the period	( <u>768</u> )	<u>557</u>
Balance, end	<u>126</u>	<u>2,111</u>
<b>CUMULATIVE TRANSLATION ADJUSTMENTS</b>		
Balance, beginning	53	54
Translation adjustment during the period	<u>1</u>	<u>0</u>
Balance, end	<u>54</u>	<u>54</u>
<b>OTHER COMPREHENSIVE INCOME - RETIREMENT PLAN</b>		
Balance, beginning	( <u>3,141</u> )	( <u>1,344</u> )
Remeasurement of the defined benefits during the period	<u>15</u>	( <u>98</u> )
Balance, end	( <u>3,125</u> )	( <u>1,441</u> )
<b>RESERVE FOR TRUST BUSINESS</b>		
Balance, beginning	485	454
Transfer from retained earnings - free	<u>10</u>	<u>7</u>
Balance, end	<u>495</u>	<u>461</u>
<b>OTHER RESERVES</b>	( <u>97</u> )	( <u>97</u> )
<b>RETAINED EARNINGS APPROPRIATED FOR GENERAL PROVISION</b>		
Beginning balance	3,132	2,594
Transfer from retained earnings - free	<u>319</u>	<u>493</u>
Balance, end	<u>3,450</u>	<u>3,088</u>
<b>RETAINED EARNINGS</b>		
Beginning balance, as previously reported	30,143	26,261
Effect of Adoption of PFRS16	-	( <u>276</u> )
Beginning balance, as restated	30,143	25,985
Net profit	4,002	4,512
Cash dividends on common shares	( <u>1,076</u> )	( <u>863</u> )
Cash dividends on preferred shares	( <u>0</u> )	( <u>0</u> )
Transfer of fair value reserves on FVOCI	-	( <u>3</u> )
Transfer to retained earnings appropriated for general provision	( <u>319</u> )	( <u>493</u> )
Transfer to reserves for trust business	( <u>10</u> )	( <u>7</u> )
Balance, end	<u>32,740</u>	<u>29,130</u>
<b>ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS</b>	<u>99,475</u>	<u>84,668</u>
<b>MINORITY INTEREST</b>		
Balance, beginning	19	26
Fair value gains on FVOCI	( <u>0</u> )	( <u>7</u> )
Net Profit (Loss) for the year	( <u>1</u> )	<u>1</u>
Balance, end	<u>18</u>	<u>20</u>
<b>TOTAL CAPITAL FUNDS</b>	<u>99,494</u>	<u>84,688</u>

*See Notes to Interim Financial Statements.*



**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**  
**STATEMENTS OF CASH FLOWS**  
*(Amounts in Millions of Philippine Pesos)*

	<b>YTD Ended</b> <b>9/30/2020</b>	<b>YTD Ended</b> <b>9/30/2019</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profits before tax	P 5,760	P 6,237
Adjustments for:		
Interest income	( 28,277 )	( 28,057 )
Interest expense	8,618	11,674
Impairment losses	7,222	5,212
Depreciation and amortization	2,172	1,786
Dividend income	( 11 )	( 274 )
Share in net earnings of associates	<u>110</u>	<u>2</u>
Operating income before working capital changes	( 4,406 )	( 3,419 )
Decrease in financial assets at fair value through profit and loss	892	2,723
Increase in loans and receivables	( 21,051 )	( 24,552 )
Decrease (increase) in investment property	336	( 168 )
Increase in other resources	( 71 )	( 3,593 )
Increase in deposit liabilities	40,250	780
Increase in accrued taxes, interest and other expenses	354	26
Increase (Decrease) in other liabilities	<u>235</u>	<u>( 9,338 )</u>
Cash generated from (used in) operations	16,539	( 37,540 )
Interest received	27,614	27,661
Interest paid	( 9,748 )	( 11,556 )
Cash paid for taxes	( 1,474 )	( 1,429 )
Net Cash From (Used in) Operating Activities	<u>32,931</u>	<u>( 22,864 )</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in Financial Assets at FVOCI	13,466	( 44,127 )
Decrease in Investment securities at amortized cost	79,461	51,778
Acquisitions of bank premises, furniture, fixtures and equipment (net)	( 1,785 )	( 1,484 )
Cash dividends received	11	274
Acquisitions of intangibles	( 202 )	( 107 )
Net Cash From (Used in) Investing Activities	<u>90,951</u>	<u>6,333</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments of bills payable	( 86,735 )	( 9,880 )
Net proceeds from issuance of Hybrid Perpetual Securities	14,471	-
Dividends paid	( 1,076 )	( 864 )
Net proceeds from (Redemption of) bonds payable	( 5,882 )	37,777
Issuance costs on common stock	<u>0</u>	<u>( 59 )</u>
Net Cash From (Used in) Financing Activities	<u>( 79,223 )</u>	<u>26,974</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>44,659</u>	<u>10,444</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING</b>		
Cash and other cash items	16,907	17,393
Due from Bangko Sentral ng Pilipinas	87,170	56,494
Due from other banks	18,783	20,344
Interbank Loans and Loans and Receivables under reverse repurchase agreement	<u>24,571</u>	<u>19,554</u>
	<u>147,431</u>	<u>113,784</u>
<b>CASH AND CASH EQUIVALENTS, END</b>		
Cash and other cash items	12,758	13,049
Due from Bangko Sentral ng Pilipinas	91,430	48,078
Due from other banks	13,962	19,356
Interbank Loans and Loans and Receivables under reverse repurchase agreement	<u>73,840</u>	<u>43,745</u>
	<u>191,989</u>	<u>124,228</u>

*See Notes to Interim Financial Statements.*

**RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES**  
**NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2020 AND DECEMBER 31, 2019**  
*(Amounts in Millions of Philippine Pesos)*

**1. CORPORATE MATTERS**

**1.1 *Incorporation and Operations***

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. It also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

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

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

The Parent Company is a 41.72% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

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

The condensed consolidated interim financial statements of the Group as of and for the nine months ended September 30, 2020 (including the comparatives for the nine months ended September 30, 2019) and the year ended December 31, 2019 were approved and authorized for issue by the Bank's Audit Committee on November 9, 2020.

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

The Bank, together with RSB, a wholly-owned subsidiary, executed a Plan of Merger on November 27, 2018, which was previously approved by all members of the Bank's Board of Directors (BOD) and by all the stockholders of the Bank on February 26, 2019. The same was filed with the SEC and was subsequently approved on July 22, 2019.

Upon issuance by the SEC of the Certificate of Filing of the Articles and Plan of Merger, RSB was merged into the Bank, which is the surviving corporation of the merger. As such, the financial information in the Parent Company's financial statements are restated for the periods prior to the combination of the Parent Company and RSB to reflect the combination as if it had occurred at the beginning of the earliest period presented in the financial statements, regardless of the actual date of the combination.

Upon the effective merger date, RCBC, as the surviving corporation, continues its existence as a corporation and conducts its business under its existing name. Issued and outstanding common shares of RSB was cancelled and exchanged with RCBC's shares. The Bank issued a total of 315,287,248 shares to the shareholders of RSB, in exchange for their respective shares, based on a share exchange ratio agreed by both parties.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### **2.1 Basis of Preparation of Financial Statements**

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The interim financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

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

#### *(b) Presentation of Financial Statements*

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

#### *(c) Functional and Presentation Currency*

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

### **2.2 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements**

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

## 2.3 *Financial Assets*

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

### (a) *Classification, Measurement and Reclassification of Financial Assets*

Under PFRS 9, *Financial Instruments*, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

#### (i) *Financial Assets at Amortized Cost*

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

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

The Group classifies financial assets as FVPL when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking.

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVPL at initial recognition, are measured at FVPL. Equity investments are classified as financial assets at FVPL, unless the Group designates an equity investment that is not held for trading as at *Financial Assets at Fair Value Through Other Comprehensive Income* (FVOCI) at initial recognition. The Group's financial assets at FVPL include government securities, corporate bonds, equity securities, which are held for trading purposes or designated as at FVPL.

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

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

*Debt Instruments at FVOCI*

The Group classifies debt instruments under FVOCI when both of the following conditions are met:

- the asset is held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

FVOCI debt securities are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in Other Comprehensive Income (OCI). Interest Income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified to profit or loss.

*Equity Instruments at FVOCI*

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

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

*(b) Impairment of Financial Assets*

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

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its loans into the following stages:

- Stage 1 : When loans are first recognized, the Group recognizes an allowance based on the twelve-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. Stage 2 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3 : When a loan is considered as credit impaired, the Group records an allowance for the lifetime ECL.

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

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

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

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

(c) *Derecognition of Financial Assets*

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

## 2.4 *Financial Liabilities*

Financial liabilities which include deposit liabilities, bills payable, bonds payable, subordinated debt, accrued interest and other expenses, and other liabilities (except tax-related payables, post-employment defined benefit obligation and deferred income) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

## **2.5 Provisions and Contingencies**

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

## **2.6 Revenue and Expense Recognition**

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

## **2.7 Impairment of Non-financial Assets**

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.

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

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

## **2.8 Income Taxes**

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

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

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

## ***2.9 Related Party Relationships and Transactions***

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

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

## ***2.10 Events After the End of the Reporting Period***

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



### 3. TRADING AND INVESTMENT SECURITIES

This account is composed of the following:

	<u>September 30, 2020</u> <u>(Unaudited)</u>		<u>December 31, 2019</u> <u>(Audited)</u>
Financial assets at FVPL	<b>P 4,656</b>	P	5,548
Financial assets at FVOCI	<b>40,010</b>		54,245
Investment securities at amortized cost - net	<u><b>21,465</b></u>		<u>100,926</u>
	<u><b>P 66,132</b></u>	P	<u>160,719</u>

#### 3.1 Financial Assets at FVPL

This account is composed of the following:

	<u>September 30, 2020</u> <u>(Unaudited)</u>		<u>December 31, 2019</u> <u>(Audited)</u>
Government securities	<b>P 2,067</b>	P	3,438
Derivative financial assets	<b>693</b>		1,075
Corporate debt securities	<b>873</b>		287
Equity securities	<u><b>1,023</b></u>		<u>748</u>
	<u><b>P 4,656</b></u>	P	<u>5,548</u>

#### 3.2 Financial Assets at FVOCI

This account is composed of the following:

	<u>September 30, 2020</u> <u>(Unaudited)</u>		<u>December 31, 2019</u> <u>(Audited)</u>
Government bonds	<b>P 23,964</b>	P	43,281
Corporate debt securities	<b>12,911</b>		7,331
Unquoted equity securities	<b>1,832</b>		1,612
Quoted equity securities	<u><b>1,303</b></u>		<u>2,021</u>
	<u><b>P 40,010</b></u>	P	<u>54,245</u>

#### 3.3 Investments at Amortized Cost

This account is composed of the following:

	<u>September 30, 2020</u> <u>(Unaudited)</u>		<u>December 31, 2019</u> <u>(Audited)</u>
Government securities	<b>P 19,059</b>	P	92,211
Corporate debt securities	<u><b>2,547</b></u>		<u>8,854</u>
	<b>21,606</b>		101,065
Allowance for impairment	<u><b>(141)</b></u>	(	<u>139)</u>
	<u><b>P 21,465</b></u>	P	<u>100,926</u>

#### 4. LOANS AND RECEIVABLES

This account consists of the following:

	<b>September 30, 2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Receivable from customers:		
Loans and discounts	<b>P 399,947</b>	P 377,947
Credit card receivables	<b>30,557</b>	31,043
Customers' liabilities on acceptances, import bills and trust receipts	<b>17,296</b>	16,869
Lease contract receivable	<b>3,254</b>	3,767
Bills purchased	<b>1,556</b>	4,815
Receivables financed	<b>334</b>	678
	<b>452,944</b>	435,119
Unearned discount	<b>(734)</b>	<b>(856)</b>
	<b>452,210</b>	<b>434,263</b>
Other receivables:		
Interbank loans receivables	<b>60,174</b>	18,803
Accrued interest receivable	<b>5,130</b>	4,332
Accounts receivable	<b>3,243</b>	2,786
Unquoted debt securities classified as loans	<b>965</b>	1,475
Sales contract receivable	<b>995</b>	990
	<b>70,507</b>	<b>28,386</b>
	<b>522,717</b>	462,649
Allowance for impairment	<b>(17,316)</b>	<b>(13,430)</b>
	<b>P 505,401</b>	<b>P 449,219</b>

#### 5. OTHER RESOURCES

This account consists of the following:

	<b>September 30,</b> <b>2020</b> <b>(Unaudited)</b>	December 31, 2019 <b>(Audited)</b>
Assets held-for-sale and disposal group	<b>P 3,234</b>	P 3,206
Creditable withholding taxes	<b>2,386</b>	2,393
Prepaid expenses	<b>1,069</b>	883
Branch licenses	<b>1,000</b>	1,000
Software – net	<b>873</b>	902
Refundable and other deposits	<b>520</b>	739
Goodwill	<b>426</b>	426
Unused stationery and supplies	<b>306</b>	354
Deferred charges	<b>181</b>	179
Returned checks and other cash items	<b>173</b>	90
Margin deposits	<b>16</b>	40
Miscellaneous	<b>1,069</b>	1,119
	<b>11,253</b>	11,331
Allowance for impairment	<b>(762)</b>	<b>(723)</b>
	<b>P 10,492</b>	<b>P 10,608</b>

## 6. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	<b>September 30, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
Demand	<b>P 80,700</b>	P 70,523
Savings	<b>192,726</b>	179,247
Time	<b>217,323</b>	198,629
Long-term Negotiable Certificate of Deposits (LTNCD)	<b>6,082</b>	8,182
	<b><u>P 496,831</u></b>	<b><u>P 456,581</u></b>

The details of the Parent Company's Long-term Negotiable Certificate of Deposits (LTNCDs) as of September 30, 2020 and December 31, 2019 are as follows:

<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Coupon Interest</u>	<u>Outstanding Balance</u>	
			<u>September 30, 2020 (Unaudited)</u>	<u>December 31, 2019 (Audited)</u>
September 28, 2018	March 28, 2024	5.50%	<b>P 3,580</b>	P 3,580
August 11, 2017	February 11, 2023	3.75%	<b>2,502</b>	2,502
December 19, 2014	June 19, 2020	4.13%	<b>-</b>	2,100
			<b><u>P 6,082</u></b>	<b><u>P 8,182</u></b>

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

## 7. BILLS PAYABLE

This account consists of borrowings from:

	<b>September 30, 2020 (Unaudited)</b>	<b>December 31, 2019 (Audited)</b>
Local banks	<b>P 9,706</b>	P 32,810
Foreign banks	<b>5,145</b>	68,795
Others	<b>20</b>	1
	<b><u>P 14,871</u></b>	<b><u>P 101,606</u></b>

## 8. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Coupon Interest</u>	<u>Face Value</u>	<u>Outstanding Balance</u>	
				<u>September 30, 2020 (Unaudited)</u>	<u>December 31, 2019 (Audited)</u>
July 27, 2020	July 27, 2022	3.25%	P 16,616	P 16,616	P -
April 7, 2020	April 7, 2022	4.85%	P 7,054	7,054	-
November 13, 2019	November 13, 2022	4.43%	P 7,500	7,500	7,500
September 11, 2019	September 11, 2024	3.05%	\$ 300	14,519	15,154
June 4, 2019	June 4, 2021	6.15%	P 8,000	8,000	8,000
February 1, 2019	August 1, 2020	6.73%	P 15,000	-	15,000
March 15, 2018	March 16, 2023	4.13%	\$ 450	21,724	22,710
November 2, 2015	February 2, 2021	3.45%	\$ 320	15,519	16,203
January 21, 2015	January 22, 2020	4.25%	\$ 243	-	12,247
				<b>P 90,932</b>	<b>P 96,814</b>

## 9. OTHER LIABILITIES

Other liabilities consist of the following:

	<u>September 30, 2020 (Unaudited)</u>	<u>December 31, 2019 (Audited)</u>
Accounts payable	P 8,729	P 6,684
Post-employment defined benefit obligation	3,253	3,260
Lease liabilities	2,561	2,877
Outstanding acceptances payable	1,628	1,464
Manager's checks	1,278	1,434
Derivative financial liabilities	1,256	863
Deposits on lease contracts	567	397
Other credits	472	300
Due to other banks	472	1
Bills purchased – contra	393	3,383
Payment orders payable	313	671
Sundry credits	287	210
Due to BSP	224	26
Withholding taxes payable	210	293
Unearned income	205	233
Expected credit loss provisions		
on loan commitments	150	125
Guaranty deposits	146	115
Miscellaneous	848	690
	<b>P 22,992</b>	<b>P 23,026</b>

## 10. SUBORDINATED DEBT

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

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

## 11. EQUITY

The movements in the outstanding capital stock are as follows:

	<u>Number of Shares*</u>	
	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<u>(Unaudited)</u>	<u>(Audited)</u>
Preferred stock – voting, non-cumulative non-redeemable, participating convertible into common stock – P10 par value Authorized – 200,000,000 shares		
Balance at beginning of year	267,410	267,887
Conversion of shares during the period	( - )	( 477 )
Balance at end of period	<u>267,410</u>	<u>267,410</u>
Common stock – P10 par value Authorized – 2,600,000,000 shares		
Balance at beginning of year	1,935,628,896	1,935,628,775
Issuance of shares during the year	-	-
Conversion of shares during the year	-	121
Balance at end of year	<u>1,935,628,896</u>	<u>1,935,628,896</u>

*\*Amounts in absolute number of shares*

### **11.1 Hybrid Perpetual Securities**

On August 27, 2020, RCBC issued USD 300.0 million 6.5% non-cumulative subordinated Hybrid Perpetual Securities, eligible as Additional Tier 1 (AT1) Capital under Basel 3. The issuance was approved by the Bank’s Board of Directors on June 29, 2020 and by the Monetary Board on August 13, 2020 per its letter dated August 17, 2020.

The significant terms and conditions of the securities with an aggregate issue amount of \$300 are as follows:

- (a) The Hybrid Securities are perpetual in respect of which there is no fixed redemption date. The securities may not be redeemed in at the option other than in accordance with the terms and conditions of the securities.
- (b) The Hybrid Perpetual Securities confer a right to receive distributions on the principal amount from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrears on February 27 and August 27 in each year.
- (c) The rate of the distribution applicable to the Hybrid Perpetual Securities shall be:
  - (i) in respect of the period from, and including, the Issue Date to, but excluding August 27, 2025 (the First Call Date), 6.5% per annum; and
  - (ii) in respect of the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date, the Reset Distribution Rate.
- (d) If a Non-Viability Event occurs and is continuing, the Bank shall, upon the provision of a Non-Viability Event Notice, irrevocably reduce the then principal amount of, and cancel any accrued but unpaid distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security.
- (e) Once the principal amount of, and any accrued but unpaid distribution under, the Capital Securities has been written-off, the relevant amount(s) written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Security holder may exercise, claim or plead any right to any amount that has been written-off, and each Security holder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been written-off.

## 12. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

### *12.1 Miscellaneous Income*

	<u>For the Nine Months Ended</u>	
	<u>January 1 to September 30, 2020 (Unaudited)</u>	<u>January 1 to September 30, 2019 (Unaudited)</u>
Rentals	<b>P 631</b>	P 599
Dividend income	<b>61</b>	274
Gains on assets sold	<b>36</b>	95
Others	<b>8</b>	185
	<b><u>P 737</u></b>	<b><u>P 1,153</u></b>

## 12.2 Miscellaneous Expenses

	<u>For the Nine Months Ended</u>	
	<u>January 1 to September 30, 2020 (Unaudited)</u>	<u>January 1 to September 30, 2019 (Unaudited)</u>
Insurance	<b>P 949</b>	P 828
Credit card related expenses	<b>638</b>	870
Communication and information	<b>466</b>	445
Service processing fees	<b>338</b>	291
Litigation/asset acquired expenses	<b>280</b>	202
Management and other professional fees	<b>255</b>	370
Fines and penalties	<b>221</b>	163
Advertising and publicity	<b>211</b>	201
Banking fees	<b>202</b>	188
Stationery and office supplies	<b>180</b>	144
Transportation and travel	<b>135</b>	183
Other outside services	<b>103</b>	118
Donations and charitable contributions	<b>82</b>	61
Representation and entertainment	<b>27</b>	41
Shipment and freight	<b>20</b>	91
Others	<b>577</b>	451
	<b><u>P 4,684</u></b>	<b><u>P 4,648</u></b>

## 13. COMMITMENTS AND CONTINGENCIES

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

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

### 13.1 Contingent Accounts, Guarantees and Other Commitments

The following is a summary of contingencies and commitments arising from off-statement of financial position items at their equivalent peso contractual amounts as of September 30, 2020 and December 31, 2019:

	<b>September 30, 2020 (Unaudited)</b>	December 31, 2019 (Audited)
Trust department accounts	<b>P 102,422</b>	P 94,432
Outstanding guarantees issued	<b>69,450</b>	67,003
Derivative liabilities	<b>56,444</b>	59,505
Derivative assets	<b>56,285</b>	63,904
Unused commercial letters of credit	<b>17,565</b>	20,688
Spot exchange bought	<b>6,294</b>	14,210
Spot exchange sold	<b>6,292</b>	14,216
Inward bills for collection	<b>3,031</b>	2,586
Late deposits/payments received	<b>636</b>	715
Outward bills for collection	<b>33</b>	38
Others	<b>17</b>	19

### 13.2 Sale of National Steel Corporation (NSC) Plant Asset

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

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

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

Notwithstanding the finality of the Philippine Supreme Court's ruling on the pre-closing taxes, on October 19, 2016, the City of Iligan foreclosed on NSC's properties after issuing a Notice of



Delinquency against the NSC, seeking to collect the taxes covering the period 1999 to 2016. In an Order dated April 4, 2017, the Makati City Regional Trial Court (“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. Likewise, in an Omnibus Order dated May 21, 2018, the Makati Trial Court denied the Motion for Reconsideration and the Urgent Motion to recall the Orders dated October 18, 2016 and April 4, 2017 filed by the Iligan City LGU and Iligan City Treasurer, among others.

The City of Iligan, represented by its purported Acting City Mayor Jemar L. Vera Cruz, filed with the Court of Appeals a Petition for Certiorari dated July 6, 2018, essentially (a) asserting the said LGU’s right to sell at public auction the NSC Plant and other assets due to non-payment both pre-closing and post-closing taxes; and (b) praying that the writ of execution issued by the Makati Trial Court be declared null and void, especially due to the non-payment of docket fees and non-deposit of the contested tax amount of P4,610. In a Resolution dated December 18, 2018, the Court of Appeals dismissed the Petition filed by the City of Iligan on account of the LGU’s failure to submit the documents/pleadings identified in an earlier Resolution dated July 31, 2018. The Court of Appeals likewise denied the City of Iligan’s Motion for Reconsideration in its Resolution dated June 20, 2019, prompting the LGU to file a Petition for Review with the Supreme Court on September 6, 2019. In a Resolution dated October 16, 2019, the Supreme Court *motu proprio* granted the City of Iligan’s Petition, and ordered the remand of the case to the Court of Appeals for the determination of the propriety of consolidating the same with CA-G.R. SP No. 1249852, or for resolution of the merits of the case.

In a bid to stop the illegal take-over acts committed by the City of Iligan on the NSC Plant/other assets, the NSC Liquidator filed a Special Civil Action for Prohibition against the City of Iligan, its Chief Executive and the City Treasurer with the Court of Appeals, pointing out that the take-over is based on the public auction which (a) has been nullified by the Makati Trial Court, as stated above; (b) violated the Stay Order issued by the Securities and Exchange Commission (“SEC”) in SEC Case No. 12-99-6959 against the Iligan City Treasurer/her agents; and (c) sought to collect taxes already deemed paid. The Court of Appeals, however, dismissed the same in its Decision dated July 24, 2019, ruling that NSC breached the rule on forum-shopping/failed to observe the doctrine of hierarchy of the courts, and denied its Motion for Reconsideration on December 18, 2019.

Aggrieved, the NSC filed a Petition for Review on February 20, 2020, arguing that (a) the Court of Appeals gravely erred in ruling that NSC/Global Steel have common interest, such that the pendency of the latter’s case against the City of Iligan barred the NSC from filing a similar action, given that (i) the NSC/Global Steel are certainly not trying to recover the NSC Plant for each other’s benefit, and (ii) the NSC’s action against the concerned LGU is based on the aforementioned Makati Trial Court/SEC Orders; (b) special circumstances warrant the filing of the petition with the Court of Appeals; and (c) the Court of Appeals overlooked the illegal acts being perpetrated by LGU and its officials in violation of its rights. In a Resolution dated March 2, 2020, the Supreme Court directed the Iligan LGU to file its Comment to the Petition for Review.

### ***13.3 Verotel Merchant Services B.V. Case***

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

pharmaceuticals over the internet. Following an initial jury verdict in favor of VMS, and a series of subsequent motions and a reduction of monetary damages awarded to VMS, the Bank/Bankard filed their Notice of Appeal with the California Court of Appeals on July 11, 2016. On October 2, 2017, the Bank/Bankard filed their Revised Opening Brief on their appeal of the verdict with the California Court of Appeals. On March 28, 2018, the Bank/Bankard was advised of the filing of VMS's Combined Respondents' Brief and Cross-Appellants' Opening Brief. On August 14, 2018, the Bank/Bankard filed their combined Reply and Cross-Respondent's Brief. In accordance with prior stipulations, VMS timely filed its Final Reply Brief dated October 31, 2018.

In a letter dated May 30, 2019, VMS requested the California Court of Appeals to take cognizance of the ruling in *Mazik vs. Geico General Insurance Company*, claiming that it is relevant in resolving its punitive damages appeal. In a letter dated June 3, 2019, the Bank/Bankard objected to the letter filed by VMS as it violates Rule 8.254 of the California Rules of Court, which prohibits the inclusion of "argument or other discussion of authority" and description of issues raised by a party in its brief. In another letter dated August 3, 2020, VMS requested the California Court of Appeals to take cognizance of new rulings, which are allegedly relevant to the pending appeal case. The Bank/Bankard responded to the VMS letter on August 13, 2020, essentially reiterating its observation that VMS is improperly using its Rule 8.254 letter to raise arguments, and requested for leave to file a supplemental brief to properly address the VMS's arguments. The parties are still awaiting the advice of the California Court of Appeals has since ordered the striking out of the second letter of VMS and the response of the Bank/Bankard, as well as the on the scheduling of date of the oral arguments in the appeal case on November 12, 2020.

### ***13.4 RCBC Securities Case***

In December 2011, RCBC Securities ("RSEC") initiated a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), arising from questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violation of *Batas Pambansa Blg. 22* ("BP 22"), against Valbuena. On November 17, 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of violation of BP 22. Valbuena's conviction has been sustained by the Regional Trial Court of Makati, Branch 141, and the Court of Appeals in its Decision dated September 6, 2019, which denied Valbuena's Petition for Review for lack of merit, and directed Valbuena to pay RSEC the amount of P7.2, except that interest on the said amount shall be at the rate of (a) twelve percent (12%) per annum from January 18, 2012 to June 30, 2013, and (b) six percent (6%) per annum from July 1, 2013 until full satisfaction of the amount due. Valbuena has filed a Motion for Reconsideration dated October 7, 2019 on the Decision of the Court of Appeals. Finding merit in the comments filed thereafter by RSEC and the Office of the Solicitor General, the Court of Appeals, in a Resolution dated June 10, 2020, denied Valbuena's Motion for Reconsideration.

On September 21, 2020, after praying for time to do so, Valbuena filed her Petition for Review with the Supreme Court, seeking the reversal of the aforementioned Decision and Resolution of the Court of Appeals.

In May 2012, the Capital Markets Integrity Corporation ("CMIC") conducted an investigation on the complaint filed by Francisco Ken Cortes against RSEC. After due proceedings, the CMIC issued Resolutions dated July 3, 2015 and July 21, 2015, dismissing the complaint filed by Mr. Cortes and denying his Motion for Reconsideration, respectively. The aforesaid Resolutions have since become final and executory.

In a Complaint dated December 30, 2013, Cognatio Holdings, Inc. ("Cognatio") complained against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena with the Enforcement and Investor Protection Department of the Securities and Exchange Commission ("EIPD-SEC"). In an Order dated April 3, 2019, the

SEC-EIPD (a) ruled that RSEC violated the Securities Regulations Code, imposing thereon a monetary fine of P5, and (b) directed its submission of amended internal control procedures to (i) strengthen its Chinese Wall Policy, and (ii) validate transactions executed by its salesmen. On April 25, 2019, RSEC manifested that notwithstanding its disagreement with such factual findings, it will comply with the latter's directives. RSEC likewise proposed to immediately pay a reduced amount in full and complete settlement of the monetary fine. In an Order dated July 16, 2019, the SEC-EIPD accepted RSEC's settlement offer of P2.5, sans any finding of fault or guilt on the latter's part. Further, on August 5, 2019, RSEC submitted its Board-approved Amended Internal Protocols to the Markets and Securities and Regulation Department, in compliance with the directive of the SEC-EIPD.

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio filed a complaint against RSEC with the CMIC, even as Cognatio's foregoing complaint was still pending with the EIPD-SEC. In its decision letter dated December 4, 2014, the CMIC dismissed Palanca/Cognatio's complaint on the ground of prescription and *res judicata*. However, this was reversed by the SEC en banc on appeal. Aggrieved, RSEC elevated the matter to the Court of Appeals, which held that Palanca/ Cognatio committed willful and deliberate forum-shopping. In a Resolution dated September 5, 2018, the Court of Appeals denied Palanca/Cognatio's Motion for Reconsideration, which prompted their filing of a Petition for Review dated October 8, 2018 with the Supreme Court. On February 11, 2019, RSEC filed its Comment to the Petition for Review, and Palanca/Cognatio responded by filing, on March 25, 2019, a Motion for Leave to file Reply and their attached Reply. The case remains pending to date.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the "Makati Trial Court"), essentially praying for the return of his shares of stock and cash payments approximately valued at P103, which he claims to have turned over to Valbuena. On May 20, 2013, RSEC sought the dismissal of the complaint citing the non-payment of the correct filing fees and failure to state a case of action. After the Makati Trial Court denied the same, RSEC elevated the matter to the Court of Appeals, which sustained RSEC's position and ordered the dismissal of the complaint in its Decision dated October 9, 2014. However, acting on Ku's Petition for Review, the Supreme Court – in its Decision dated October 17, 2018 - reversed the Court of Appeals and held that Ku's immediate payment of the deficiency docket fees shows that he did not intentionally attempt to evade the payment of the correct filing fees, so as to merit the dismissal of his complaint. In a Resolution dated January 23, 2019, the Philippine Supreme Court denied RSEC's Motion for Reconsideration, and ordered the Makati Trial Court to proceed with the hearing of the case until its termination.

The proceedings before the Makati Trial Court were suspended to give way to mediation on July 16, 2019. Upon the filing of the Pre-Trial Briefs on August 13-14, 2019, the parties underwent Judicial Dispute Resolution, which was terminated on October 29, 2019 after settlement failed. In an Order dated November 12, 2019, the Makati Trial Court Branch to where the case was re-raffled, set the same for pre-trial conference on December 13, 2019, and directed the filing of the Judicial Affidavit of the parties' respective witnesses. The Makati Trial Court, however, cancelled the pre-trial conference on the said date and reset the same to January 15, 2020, after Ku and his counsel failed to appear/submit the required Judicial Affidavits of his witnesses. After receiving the Judicial Affidavit of RSEC's additional witness and that of Ku/his witness shortly before the January 15, 2020 hearing, the Makati Trial Court cancelled the pre-trial conference anew and reset the same to February 13, 2020.

The pre-trial conference commenced on the aforesaid date and terminated on February 27, 2020, after the completion of the pre-marking of documentary exhibits on February 20, 2020. The Makati Trial Court then set the presentation of Ku's evidence on March 12, 19, 23, and 24, 2020, all at 1:30 p.m. However, due to the scheduled inventory and the subsequent COVID-19 pandemic/lockdown implemented, all the scheduled hearings in the case were cancelled. In an Order dated 10 June 2020, the Makati Trial Court set Ku's made his initial presentation of evidence on July 14, 2020, after which the Makati Trial Court has since then further reset Ku's

cross-examination to with the advice that, with prior leave of court and the prior submission of e-copies of the documents intended to be presented, the parties may resort to videoconferencing on 27 November 2020.

### ***13.5 HHIC-Philippines, Inc. Rehabilitation Proceedings***

On January 9, 2019, HHIC-Phil, Inc. (“HHIC-Phil”) filed a petition for corporate rehabilitation (“Petition”) under Republic Act No. 10142, the Financial Rehabilitation and Insolvency Act of 2010 (“FRIA”) with the Regional Trial Court, Branch 72, Olongapo City (the “Rehabilitation Court”). On January 14, 2019, the Rehabilitation Court gave due course to the Petition and appointed a Rehabilitation Receiver, who was soon replaced by Atty. Rosario S. Bernaldo.

To the extent allowable under the FRIA, the Bank, together with the four (4) other creditor banks (“co-creditor banks”) negotiated with HHIC-Phil and HHIC-Korea for a modified rehabilitation plan (“MRP”), wherein (a) the Bank/co-creditor banks will assume all the costs of maintaining/ operating the Subic Shipyard to essentially preserve the assets thereat; (b) the said assets (except for an identified few) would be dacioned to the Bank/co-creditor banks, thru a trustee, in proportion to their respective loans and in full settlement of such loans; and (c) the Trustee, subject to the Bank/co-creditor banks’ instruction, will assign the transferred assets to a new company organized for such purpose, or to any third party buyer/designee or nominee of the Bank/co-creditor banks, which shall then assume all costs necessary to maintain or operate the transferred assets, including employee costs.

On March 8, 2019, the Bank/co-creditor banks, HHIC-Phil and HHIC-Korea filed a Verified Joint Motion for Approval of Modified Rehabilitation Plan as a Pre-Negotiated Rehabilitation Plan Under Chapter III of the FRIA. However, the call for the approval of the MRP was deferred to address the issues raised in the Rehabilitation Court’s Order dated April 12, 2019. On May 6, 2019, the Notice of Conference and the Modified Rehabilitation Plan of HHIC-Phil Inc. with Clarifications (“MRP with Clarifications”) were electronically served upon all the known creditors and stakeholders, stating that the same will be submitted for their consideration on May 9, 2019. And during the May 9, 2019 conference, more than fifty percent (50%) of the secured/unsecured creditors and stakeholders approved the MRP with Clarifications, which was reported to the Rehabilitation Court through a Manifestation dated May 14, 2019.

However, on June 14, 2019, the Rehabilitation Receiver filed a Motion dated June 13, 2019 (a) seeking further supporting details on certain items in the MRP with Clarifications from the Bank/co-creditor banks; and (b) praying that (i) all HHIC-Phil creditors agree to a uniform debt reduction/waiver of interest and penalties, (ii) the Bank/co-creditor banks be made to infuse working capital funds to HHIC-Phil in the meantime, and collectively limit their claim to USD350 should HHIC-Phil’s assets be instead sold to a white knight, and (iii) the excess of such payment be used to paying all other creditors in proportion to their remaining exposures. The Bank/co-creditor banks opposed the Rehabilitation Receiver’s Motion (a) given their assumption of the cost of maintaining the shipyard; (b) requiring the infusion of additional working capital to HHIC-Phil when its account is past due may result in stiff penalties from its various financial regulators; and (c) the viability of the MRP with Clarifications arising from the waiver of the USD1,041 claims of the HHIC-Korea affiliates and HHIC-Phil’s adoption of a new payment scheme, lessening its reliance on loans to finance its projects.

In the Order dated August 8, 2019, the Rehabilitation Court found the MRP with Clarifications to be still deficient and remanded the same for revision, and ordered the Bank/co-creditor banks to make a complete and full disclosure of all transactions/submit all contract, agreements, waivers and other pertinent documents entered with foreign banks and other parties to the proceedings. On September 2, 2019, the Bank filed its Manifestation with Motion for Additional Time to Comply, disclosing the existence of a non-binding offer from a potential white knight, and praying that the Rehabilitation Receiver be given time to submit a further revised Rehabilitation Plan. On the other hand, two of the co-creditor banks filed an Omnibus Motion arguing that the

MRP with Clarifications would (a) relieve HHIC-Phil of its USD7.2/a year bill for shipyard maintenance cost, (b) condone a huge portion of HHIC-Phil's debt, and (c) leave HHIC-Phil with more than sufficient operational funds during the remaining rehabilitation period, and that the FRIA does not prohibit a change in HHIC-Phil's line of business.

On September 11, 2019, HHIC-Phil filed its own Motion for Reconsideration of the Order dated August 8, 2019, arguing that the non-approval of the MRP with Clarifications will force it into liquidation. On the same date, another co-creditor bank requested for an extension of the date of submission of a further revised Rehabilitation Plan and argued that no unjust enrichment of the Bank/co-creditor banks will actually occur. During the hearing on September 20, 2019, the Rehabilitation Court directed, among others, the setting of a monitoring hearing on November 5, 2019. On September 25, 2019, another co-creditor bank filed its Comment to HHIC-Phil's Motion for Reconsideration, stating that (a) although HHIC-Phil's business is not confined to building ships, it will continue with the completion of the four (4) ships mentioned in the MRP with Clarifications, and (b) the transfer of shipyard to the Bank/co-creditor banks will preserve and maximize the value thereof.

On 5 November 2019, the Rehabilitation Court issued an Order reconsidering the Order dated August 8, 2019/confirming the MRP with Clarifications. Not long after, a number of creditors (principally ship-owners with warranty claims/manufacturers of ship parts/engines) filed various motions for admission/clarification/correction of amount/reclassification of claims, as found in the Final Registry of Claims, praying that the Rehabilitation Court recall/vacate the Order confirming the MRP with Clarifications. The Korean Development Bank ("KDB") likewise filed a Motion to enforce its lien on the HHIC-Phil account in its possession.

The Bank/co-creditor banks filed their oppositions to the motion filed by the ship-owners pointing out that (a) these claims were already considered in the Rehabilitation Receiver's Submission (On Disputed and Challenged Claims and Those with Pending Motions for Correction/Rectification) (the "Submission") filed on September 16, 2019; (b) the movants failed to appeal within the five (5) day-period from notice thereof ; (c) the Submission has been approved by the Rehabilitation Court via the Order dated November 11, 2019; and (d) under no circumstances can the ship-owners' Omnibus Motion filed in November 2019, be considered as the appeal mentioned in Section 26, Rule 2 of the FRIA. As for the ship engines/parts supplier, respectively, the Bank/co-creditor banks posited, among others, that (a) the ship engines supplier did not classify its claim as an administrative expense when it filed the same on January 18, 2020; and (b) the period to question the Rehabilitation Receiver's decision on the disputed claims, or appeal the same, have lapsed. On the other hand, the Rehabilitation Receiver/a co-creditor bank opposed KDB's claim, arguing that the same is already fully secured by the real properties of HHIC-Korea.

In the Order dated February 7, 2020, the Rehabilitation Court approved KDB's motion, but denied the motions filed by the ship-owners/ship engines supplier in its Orders dated February 10, 2020 and February 11, 2020, respectively, for lack of merit. The Rehabilitation Court pointed out that the Order confirming the MRP with Clarifications can only be questioned via a petition for certiorari, and the ship-owners/ship engines supplier did not avail of this remedy within the time prescribed in A.M. No. 12-12-11 SC, otherwise known as the FRIA Rules. The Rehabilitation Court, however, has yet to rule on the Motion to Lift Order of Approval of Becker Marine System, GMBH, which seeks the admission of its claim in the amount of USD1.

In the Order dated February 18, 2020, the Rehabilitation Court granted the Motion for Approval of Sale dated January 16, 2020 filed by the Rehabilitation Receiver in connection with the sale of various scrap metal and other hazardous substances found in the shipyard.

On July 16, 2020, the Rehabilitation Receiver filed her Comment/Opposition to the Petition for Certiorari filed by the ship owners, pointing out that (a) the petitioner ship owners received her Submissions filed on September 16, 2019, but did not submit any Motion seeking the review of

their claims or additional supporting documents to buttress their claims; and (b) the recognized claim of ship owners in the MRP with Clarification is US\$62,691,878.78, which is higher than their stated claim of US\$26,131,598.60. In a Manifestation dated August 2, 2020, the ship owners relayed their intention to file a Consolidated Reply to such submission and other similar pleadings from other creditors. However, in lieu of a Reply, the ship owners filed a Motion to Withdraw/Dismiss the Petition with prejudice on September 1, 2020.

In a Petition for Certiorari dated June 19, 2020, the ship engine supplier claimed that the Rehabilitation Court gravely erred in refusing to recognize its claim as an administrative expense, when it is evident that the four (4) ships mentioned in the MRP with Clarifications cannot be completed without the ship engines it was contracted to supply. In a Resolution dated July 27, 2020, the Court of Appeals directed the Rehabilitation Receiver, among others, to file her Comment on the Petition.

In a Motion to Confirm/Approve Sale (Pursuant to the Implementation of the Modified Rehabilitation Plan with Clarifications) dated 28 August 2020, HHIC-Phil sought the approval of the sale of ship hulls NTP 169 and NTP 170 to HHIC-Korea on an "As-Is, Where-Is" basis for US\$23 Million and other non-cash considerations, the proceeds of which shall be used by HHIC-Korea, in its capacity as paying agent, to pay off HHIC-Phil's suppliers. In their separate Manifestations filed from September 21 to 25, 2020, the Bank and three (3) other creditor banks, the ship engine supplier, and creditor CMB confirmed their non-opposition to HHIC-Phil's Motion.

As of September 30, 2020, the outstanding loan obligation of HHIC-Phil to the Bank remains at USD149.44, inclusive of accrued and compounded interest as well as penalty on interest and principal.

### ***13.6 Applicability of RR 4-2011***

In March 2011, the Bureau of Internal Revenue ("BIR") (a) issued RR 4-2011, prescribing a new way of reporting income solely for banks and other financial institutions, and (b) issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU.

On April 6, 2015, the Bank/other Bankers Association of the Philippines member banks ("BAP-member banks") filed a Petition for Declaratory Relief with application for provisional remedies with the Regional Trial Court of Makati ("Makati Trial Court"), assailing the validity of RR 4-2011 for (a) being violative of their substantive due process rights and the equal protection clause of the Constitution; (b) being a deterrent to banks to invest in capital market transactions to the prejudice of the economy; and (c) setting a dangerous precedent for the disallowance of full deductions, due to its prescribed method of allocation.

Acting on the Petition, the Makati Trial Court issued a Temporary Restraining Order on April 8, 2015 and a Writ of Preliminary Injunction on April 17, 2015, enjoining the enforcement, in any manner, of RR 4-2011 against the Bank/other BAP-member banks, including issuing any Preliminary Assessment Notice ("PAN") or Final Assessment Notice ("FAN") against them during the pendency of the litigation, unless sooner dissolved. On June 10, 2015, Makati Trial Court issued a Confirmatory Order stating that the BIR is also prohibited from ruling or deciding on any administrative matter pending before it in relation to RR 4-2011 and insofar as the Bank/other BAP-member banks are concerned.

After the pre-trial conference terminated on August 3, 2017, the Makati Trial Court directed the parties to file their respective Memorandum on September 15, 2017, in lieu of holding trials. In an Order dated May 25, 2018, the Makati Trial Court granted the Petition for Declaratory Relief and declared RR 4-2011 null and void for being issued beyond the authority of the Secretary of

Finance and Commissioner of Internal Revenue. The Makati Trial Court likewise made permanent the Writ of Preliminary Injunction it issued earlier.

Aggrieved, the Department of Finance (“DOF”) and the BIR elevated the matter to the Supreme Court via a Petition for Review on Certiorari dated August 1, 2018, essentially alleging that (a) the validity of RR 4-2011 should have been brought instead before the Court of Tax Appeal; (b) upon the issuance of RR 4-2011, the Bank and BAP-member banks should have already adjusted their accounting and book keeping methods; and (c) the declaratory relief action was no longer proper in view of the issuance of PANs.

In response/compliance with the Resolution dated March 27, 2019, the Bank/other BAP-member banks pointed out that (a) the filing of the Makati Trial Court case was proper since the issue relates to the exercise of quasi-legislative power; (b) Regional Trial Courts have original jurisdiction over Declaratory Relief actions arising from the issuance of invalid Revenue Regulations; (c) the Bank and BAP-member banks have not breached RR 4-2011; and (d) the Makati Trial Court correctly held that RR 4-2011 is invalid for (i) mandating banks and other financial institutions to adopt a different method of accounting from the other classes of taxpayers, in denigration of the equal protection clause of the Philippine Constitution, and (ii) unlawfully amending the NIRC or Tax Code, and depriving the Bank/other BAP-member banks of their substantive rights to fully deduct legitimate business expenses from their gross income. The case remains pending before the Supreme Court.

### ***13.7 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh***

In February 2016, four allegedly unauthorized fund transfers were wired to four accounts with the Bank from the Bangladesh Bank’s account with the Federal Reserve Bank of New York (“FRBNY”), before being further dispersed to other accounts with other banks and casinos. In August 2016, the Monetary Board approved the imposition of a P1,000 fine upon the Bank which it paid in full ahead of the August 2017 deadline. Such fine was fully recognized as part of miscellaneous expenses in the Bank’s 2016 AFS. While the Bank’s payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations, there may still be other regulatory cases arising from these events.

### ***U.S. Litigation relating to the Bangladesh Bank Incident***

On January 31, 2019, the Bangladesh Bank filed a complaint with the U.S. District Court Southern District of New York (“SDNY”) against the Bank, some of its current/former officers who were involved in the incident, a money service business/its principals, junket operators, and the casinos where the questioned funds passed through, claiming the existence of a conspiracy with North Korean hackers to steal funds from its FRBNY bank account/laundry the same. The complaint cited nine (9) causes of action and sought the return of the full amount allegedly stolen, plus interest, attorney’s fees, and other damages, including treble damages under the Federal Racketeer Influence and Corrupt Organizations (“RICO”) Act.

The Bank sought the dismissal of the case on both procedural and substantive grounds, including (a) forum non conveniens; and (b) failure of the Complaint to plead a legitimate basis for Federal court jurisdiction. Thus, the Bank filed two (2) pre-motion to dismiss letters in April 2019, and on June 14, 2019 (NY Time), the Bank/other co-defendants filed a joint motion to dismiss based on lack of subject matter jurisdiction and forum non conveniens.

In reply, the Bangladesh Bank filed its Memoranda of Law essentially claiming that (a) the February 2016 cyber-heist targeted the Bangladesh Bank, the US and the FRBNY as part of an overreaching cyber-conspiracy that began in 2014 with the Sony Pictures hacking and continued until 2018; (b) proof that Philippine courts can handle complex cases/international discovery requests is lacking; and (c) the availability of key witnesses/evidence depends on New York as venue of the litigation.

From August 1, 2019 (NY Time) to December 3, 2019 (NY Time), the Bank/co-defendants and the Bangladesh Bank filed various pleadings on the issues of (a) the sufficiency of Bangladesh Bank's Federal RICO conspiracy claim; (b) the proper forum for the case, taking into account the location of relevant witnesses/documents, as well as the Philippine Blocking Statute/its non-ratification of the Hague Convention; and (c) the adequacy of Philippine Courts/the availability of discovery processes which was duly proven when another Branch of the U.S. District Court SDNY directed the Bank of New York Mellon ("BNYM") to produce non-privileged communication documents/testimonial evidence on the payment order of US\$30 on February 4, 2016, which the BNYM received from the SWIFT, the Bangladesh Bank, the FRBNY and the Federal Bureau of Investigation ("FBI").

On March 20, 2020 (NY Time), the U.S. District Court SDNY dismissed the complaint filed by the Bangladesh Bank, ruling that it failed to plead a true Federal RICO Act conspiracy claim, as it (a) portrayed racketeering activities for the narrow purpose of stealing from a single victim, conceived in January 2015, and not a "complex, multi-faceted conspiracy"; (b) failed to specify actions by particular defendants after March 2016 to hide/disperse the stolen funds; (c) does not set forth any continuing/likely future racketeering activities by any defendant; and (d) failed to plead that the enterprise members were associated as a group apart from their alleged racketeering activity, as required by *First Capital Asset Mgmt., Inc. v. Satinwood, Inc.*, 385 F.3d 159, 174 (2d Cir. 2004). As such, it lacks the statutory/constitutional power to adjudicate the case and cannot retain any supplemental jurisdiction over the related state-law claims.

On April 20, 2020 (NY Time), the Bangladesh Bank appealed to the United States Court of Appeals for the Second Circuit, and later filed a letter therewith requesting to submit its opening brief on August 3, 2020. While this letter request was granted, the Bank was informed by the US counsel, on July 31, 2020, that the Bangladesh Bank will instead withdraw its appeal in the Second Circuit. The Bangladesh Bank's appeal has since been withdrawn. This comes in the wake of the information earlier forwarded by the US Counsel that, on May 27, 2020 (NY Time), the Bangladesh Bank initiated another Complaint against the Bank/the same other defendants before the New York State Court. The Bank has yet to be served summons and a copy of the new Complaint.

As indicated above, on August 1, 2019 (NY Time), and in relation to the Injunction and Damages case filed in the Philippines, the Bank's former National Sales Director ("NSD") obtained an Order dated August 9, 2019 from the U.S. District Court SDNY compelling BNYM to produce non-privileged communication documents/testimonial evidence on the payment order of US\$30 on February 4, 2016 from various sources, including the FBI.

On August 23, 2019 (NY Time), but without prior leave, the Bangladesh Bank tried to intervene in the case/vacate the aforesaid Order. The Bangladesh Bank's effort to intervene became moot when the BNYM produced the requested documents and served the same on the Bank on September 19, 2019 (NY Time). On November 20, 2019 (NY Time), the U.S. District Court SDNY denied the Bangladesh Bank's Motion to vacate/quash the previous Order dated August 9, 2019, even as it allowed the latter's intervention in the proceedings.

### ***Philippine Litigation relating to the Bangladesh Bank Incident***

On March 6, 2019, the Bank/the former NSD filed a complaint for Injunction and Damages against the Bangladesh Bank with the Regional Trial Court of Makati City ("Makati Trial Court") to put a stop to the latter's repeated acts of (a) defaming, harassing and threatening the Bank/the former NSD, and (b) making it appear that they were involved in the theft of the US\$81 perpetrated by North Korean hackers, which repeated negative publicity is apparently designed to force the Bank to settle therewith.



In his Officer's Return dated March 14, 2019, the Sheriff of the Makati Trial Court reported that, on March 12, 2019, he tendered the Summons and a copy of the Complaint upon the Deputy Governor of Bangladesh Bank/Head of its Financial Intelligence Unit (the "Deputy Governor"). On the other hand, the Bangladesh Bank, via its Return of Summons and Manifestation by Special Appearance, disputed the propriety of the service of summons and (a) refused to formally submit to the jurisdiction of the Makati Trial Court; (b) refused to file any Answer; and (c) did not send any representative during any of the mediation conferences held.

At the July 19, 2019 hearing, the Makati Trial Court issued an Order of even date holding that (a) the Bangladesh Bank's claim of immunity from suit cannot be sustained in view of the power to sue/be sued in its own Charter document; (b) the Bangladesh Bank was properly/validly served with summons through the Deputy Governor/Head of Bangladesh Bank's Manila delegation; and (c) the filing of the complaint for Injunction and Damages vis-à-vis the case initiated by the Bangladesh Bank in the U.S. District Court SDNY cannot be considered forum shopping as none of the requirements for *litis pendentia*, save for identity of parties, are present. The Makati Trial Court directed the Bangladesh Bank to file its Answer to the Complaint within fifteen (15) days from notice, and set a status hearing which has been further reset to February 14, 2020.

However, the Bangladesh Bank continued to defy the Makati Trial Court, and its counsel of record instead filed three (3) Manifestations claiming that (a) the said counsel is supposedly unable to determine the proper recipient of the Order requiring the Bangladesh Bank to appear for Judicial Dispute Resolution; (b) the former NSD supposedly violated Section 1, Rule 27 of the Rules of Court, when he filed his Petition for Judicial Assistance under 28 U.S.C. §1782 before the U.S. District Court SDNY sans any motion/leave of the Makati Trial Court; and (c) the July 19, 2019 Order must be set aside/reconsidered as the Bangladesh Bank has not waived its sovereign immunity, and the statements made by Bangladeshi officials, on the purported involvement of the Bank in money-laundering, are non-defamatory.

At the February 14, 2020 status hearing, the Makati Trial Court directed the Bank to address the foregoing manifestations via an appropriate pleading, and set another status hearing on March 20, 2020. On February 24, 2020, in compliance with the directive of the Makati Trial Court, the Bank filed its Consolidated Counter-Manifestation of even date. However, due to the COVID-19 pandemic and the enforced lockdown, the Makati Trial Court has yet to resolve the Bangladesh Bank's Manifestations, and reset the March 20, 2020 monitoring hearing. In an Order dated June 23, 2020, the Makati Trial Court reset the monitoring hearing to August 17, 2020. However, the same has been further reset to 1 October 2020.

### ***Specific Litigation involving the Bank's Officers***

Anent the criminal complaint for money-laundering filed against former Business Manager Maia S. Deguito ("BM Deguito), the Anti-Money Laundering Council of the Philippines ("AMLC") filed with the Department of Justice ("DOJ") a second criminal complaint for alleged violation of Section 4(f) of R.A. No. 9160, as amended, premised on the alleged performance or failure to perform an act, which purportedly facilitated the crime of money-laundering of US\$81 on the part of current/former bank officers. Acting on the complaint, the DOJ found probable cause against five (5) of such current/former officers and filed the corresponding Information with the Regional Trial Court of Makati City ("Makati Trial Court"), which it subsequently amended.

After arraignment, Pre-Trial/Trial ensued with the Prosecution concluding its prosecutorial action on October 18, 2019, with (a) the filing of its Formal Offer of Evidence; and (b) a tender of excluded evidence. All the accused requested leave, and filed their Demurrer to Evidence premised on the insufficiency of evidenced against them, which were deemed submitted for resolution in the Order dated December 10, 2019. The Makati Trial Court likewise tentatively reset the presentation of Defense evidence to January 23, 2020.

On December 26, 2019, the Makati Trial Court granted the Demurrer to Evidence of three (3) of the current/former bank officers, and dismissed the case against them, given (a) their non-participation in the opening of the beneficiary accounts/validation of the inward remittances; (b) Philippine jurisprudence which prohibit banks from unilaterally freezing accounts after the credit of funds suspected to be of shady origins, and R.A. No. 9160 which bars the same sans a Court of Appeals-issued freeze order; (c) BSP Circular No. 706 directive on account closure/termination of relationship upon an adverse Enhanced Due Diligence (“EDD”) finding (instead of a freeze on the account); and (d) the bank officer’s directive on February 5, 2016, to file a Suspicious Transaction Report (“STR”) upon the lifting of the hold. Anent this development, the three (3) current/former bank officers filed a Motion to Lift Hold Departure Orders, which the Prosecution opposed.

However, the Makati Trial Court held for further trial the former Senior Customer Relationship Office (“SCRO”) and the former Customer Relationship Head (“CSH”) of the Makati Jupiter Business Center (“Makati Jupiter BC”), directing them to present their evidence beginning January 23, 2020, given proof of (a) the direct involvement of the former SCRO in the opening of the beneficiary accounts/the February 5, 2016 fund transfers/withdrawals from the Centurytex Trading account even as the owner thereof was absent from the Makati Jupiter BC; and (b) the former CSH’s act of releasing the P20 Million withdrawn funds to former BM Deguito/his agreement with the former SCRO to hide this from the Bank’s internal auditors.

The Prosecution/former SCRO filed their respective Motion for Reconsideration, wherein the Prosecution argued that (a) the failure of the three (3) current/former bank officers to conduct EDD facilitated money-laundering; (b) a “hold” is allegedly different from as a “freeze order”, and is permitted under the doctrine of necessary implication; and (c) the cases cited in the Resolution are not apropos. The three (3) current/former bank officers countered that the Prosecution’s arguments are a mere rehash of those previously raised/passed upon by the Makati Trial Court. The former SCRO, on the other hand, argued that the evidence against her is hearsay, and that the rationale for the dismissal of the charge against the three (3) other current/former officers is applicable to her.

During the January 23, 2020 hearing, the former CSH made an oral motion to (a) present his witness, and (b) have a trial separate from the former SCRO (whose Motion for Reconsideration was then still pending), which was granted. At the close of the hearing, the Makati Trial Court continued the former CSH’s presentation of evidence on February 13, 2020. Days after, the Prosecution assailed the separate trial ruling, arguing that this is contrary to the prior finding of unity of acts between the former CSH/the former SCRO. The former CSH subsequently filed a Manifestation and Submission, stating that he will terminate his presentation of evidence and file his Formal Offer of Evidence, which he did on March 9, 2020.

On March 11, 2020, the Makati Trial Court denied the Prosecution’s Motion for Reconsideration on the acquittal of the three (3) current/former bank officers, and affirmed its ruling against the former SCRO. The Prosecution then filed its Comment/Opposition dated March 16, 2020 to the Formal Offer of Evidence of the former CSH. On June 8, 2020, after the lifting of the Modified Enhanced Community Quarantine in Metro Manila, the former CSH filed his Reply of the same date to the Prosecution’s Comment/Opposition to his Formal Offer of Evidence. For their part, the acquitted current/former bank officers filed a Reply, pointing out that the Prosecution’s objection to the lifting of the Hold-Departures Orders against them have no legal basis as this should have been included in the March 11, 2020 Order of the Makati Trial Court.

On June 9, 2020, the Makati Trial Court admitted into evidence the Formal Offer of Evidence of the former CSH, and directed the Prosecution to present its rebuttal evidence on June 29, 2020. The Prosecution sought the resetting of the hearing citing the inaccessibility of the records as the DOJ Office is on lockdown until June 28, 2020. The former CSH opposed the resetting, pointing out that the hearing can be conducted via videoconferencing. In the Order dated June 25, 2020, the Makati Trial Court initially reset the presentation of rebuttal evidence to July 3,

2020, at 10:00 via videoconferencing, but reset the same further . This setting was, however, reset further to July 9, 2020, at which date an internal auditor, among others, were directed to appear via videoconferencing and produce certified true copies of the Bank Branch Circulars and on the handling of TRS Thank You letters and Exeception Reporting, as well as the applicable Money Laundering and Terrorist Financing Prevention Programs in May 2015 and February 2016.

On July 2, 2020, the Prosecution filed a motion praying (a) that Acting Presiding Judge Villamor-Yee inhibit in view of the filing, on June 30, 2020, of a Petition for Review dated June 24, 2020 on her Orders (i) granting the Demurrer to Evidence and (ii) denying the Prosecution’s Motion for Reconsideration, and (b) for the appointment of a new Acting Presiding Judge. The Prosecution’s motion, however, became moot with the transfer of Judge Villamor-Yee to a different Branch. On August 17, 2020, the new Acting Presiding Judge (a) formally denied the Motion for Inhibition, (b) directed the Prosecution to present its rebuttal evidence on September 7, 2020, and (c) directed the issuance of the requested subpoena duces tecum/ad testificandum. However, on the aforesaid hearing date, the Prosecution manifested that it will no longer present any rebuttal evidence against the former CSH. The next hearing is set on October 19, 2020, for the presentation of evidence of the former SCRO.

Acting on the criminal complaints filed by the Bank and the Centurytex Trading account owner in connection with the unauthorized acts/transactions relating to the money-laundering of US\$81, the Office of the City Prosecutor of Makati City found probable cause to charge former BM Deguito and the former SCRO with several counts of falsification of commercial document and perjury, respectively, before the Metropolitan Trial Court of Makati City (“Makati MTC”).

Due to the death of the Centurytex Trading account owner, on October 15, 2019, the Prosecution in the falsification of commercial document cases signified its intention to present the bank teller who processed the questioned transactions on February 5, 2016, which former BM Deguito opposed. Pending its resolution, the Makati MTC cancelled the October 22, 2019 hearing and set additional hearings on January 28, 2020, March 10 and 31, 2020, and April 21 and 28, 2020.

After the cancellation of the January 28, 2020 hearing due to the unavailability of the Presiding Judge, the Makati MTC issued a Resolution dated February 28, 2020 (a) denying the Prosecution’s Motion for Leave to present the testimony of the bank teller; and (b) directing the Heirs of the Centurytex Trading account owner to present their evidence on March 31, 2020. The Prosecution has since filed its Motion for Reconsideration dated March 16, 2020, arguing that the presentation of additional witnesses should be allowed in the interest of greater Justice. However, due to the COVID-19 pandemic and ensuing lockdown, the incident remains unresolved by the Makati MTC. Likewise, the hearings scheduled on March 31, 2020, April 21, 2020, and April 28, 2020, as well as the 17 September 2020, were all cancelled.

The Makati MTC hearing the perjury case against the former SCRO rejected the attempt of the latter to recall/cross-examine a Prosecution witness, holding that the non-appearance of her counsel at the scheduled hearing was inexcusable. At the close of the testimony of the Questioned Document Examiner on October 3, 2019, the Makati MTC set the case for further hearing on March 19, 2020 and April 2, 2020.

On March 13, 2020, the Prosecution filed the Judicial Affidavit of the custodian of the official records of the Senate of the Philippines in connection with the introduction into evidence of the Transcript of Stenographic Notes dated March 15, 17 and 29, 2016 of the Committee on Accountability of Public Officers and Investigation (Blue Ribbon Committee), where the now deceased Centurytex Trading account owner, among others, testified under oath that he was not the Makati Jupiter BC on February 5, 2016, and had no participation in any of the transactions that transpired thereat – contrary to what is stated in the Sworn Statement of the former SCRO. Due to the COVID-19 pandemic and the implemented lockdown, the last setting for the

presentation of the Prosecution's evidence on April 2, 2020 was likewise cancelled. In an Order dated June 1, 2020, the hearing in the case was reset to September 29, 2020. However, on motion of the former SCRO, the hearing has been further reset to October 13, 2020 via videoconferencing.

The Bank has several petitions for review currently pending in relation to actions that it has initiated against former Bank employees in relation to the Bangladesh Bank incident. There are no known trends, demands, and commitments, events, or uncertainties that will have a material impact on the Bank's operational performance and ability to service obligations.

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

## 14. EVENTS WITH CONTINUING IMPACT

In December 2019, a novel strain of coronavirus disease 2019 (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern'. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced community quarantine (ECQ) and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension – disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

While the disruption is currently expected to be temporary, management expects the suspension of businesses to negatively impact the Group's financial condition and results of operations. However, the severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, impact on the Group's customers and the accessibility and effectiveness of government support programs, all of which are uncertain and cannot be predicted as of the date of the issuance of the Group's consolidated financial statements.

As the coronavirus pandemic continues to pose challenges, businesses as a whole, are seen to gradually re-open as the lockdown is relaxed. Some clients will be generally stable with some still experiencing cash flow tightness. Sectors that appear to be vulnerable include unsecured consumer and small business loans as well as some accounts in certain industries, like travel and tourism-related. Despite these challenges, net interest income is still seen to be stable or even post a respectable growth. Fee income, on the other hand, is expected to be lower due to business disruption particularly as a result of the slowdown in insurance, decline in volumes and fee waiver pressures for payments and information services, as well as significantly lower capital market levels and activity. Under the Bayanihan to Recover As One Act (BARO), banks and other non-bank financial institutions (NBFIs) are mandated to implement a one-time sixty (60)-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees or other charges thereby extending the maturity of the said loans. Cash flow is expected to remain stable given the growth in deposits and with some clients still opting to continue their amortization payments despite the loan payment moratorium provided for under the Bayanihan Heal as One Act and BARO.

The Group has continued to operate and provide banking services to its customers since the imposition of ECQ in the Philippines commencing in mid-March 2020. To safeguard employee health and well-being, the Group activated its business continuity plan (BCP) and implemented precautionary workplace measures such as work from home arrangements and skeletal work force. The Group's BCP has back-up sites for critical functions such as client servicing, trading

and treasury operations and information technology. Key personnel have also been identified to facilitate both critical and non-critical units and senior management have been spread across different sites to ensure banking operations continue even in the event of a severe business interruption such as when one site becomes contaminated. Meanwhile, information campaigns on health preparedness and preventive measures are being applied by the Group to fight the spread of the virus. These measures include travel restrictions, controlled entry designated points equipped with thermal scanners and personal disinfectants and protocols on visitors, meetings and events. Management believes that these measures can mitigate the further negative impact of the outbreak to the Group's business and to its financial condition and performance.

The Group has been able to keep approximately 50-60% of its branches open during the early part of the community quarantine in mid-March 2020, and around 40-50% in April and May, with a skeletal workforce and corresponding adjustments in banking hours and cut-off times similar to adjustments instituted by the BSP and Bankers Association of the Philippines. By end-September 2020, the Group has kept about 98% of its branches open. Among the steps taken to address its customers' needs during the COVID-19 outbreak, the Group has (i) ensured cash availability at its ATMs and branches and (ii) extended loan payments for corporate and consumer loans for 60 days and waived fees on electronic and similar forms of payments for its clients. The Group has also encouraged its customers to use its online and mobile banking services to pay bills, send money, as well as use ATMs and cash acceptance machines as an alternative to branch banking. The Group also did not experience massive withdrawals from its depositors as the deposit liabilities still increased during the ECQ period.

During the third quarter of 2020, the Group set aside an additional provisions amounting to P2.019 billion, bringing the year to date total to P7.222 billion. This is in anticipation of the expected disruptive economic impact of the COVID-19 pandemic and the ECQ. The Group is expecting delinquencies to increase this year due to the disruption in business activities, tightness in corporate liquidity, lower consumption levels, and contraction in annual gross domestic product (GDP). Despite the additional provisions, the Group's CAR as of end September 2020 was at 15.82% and is expected to remain stable at this level by the end of the year.

## ADDITIONAL DISCLOSURES TO ITEM I – FINANCIAL STATEMENTS

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

See accompanying Notes to Interim Financial Statements for the detailed discussion of compliance with Generally Accepted Accounting Principles.

**Accounting Policies and Methods of Computation.** See accompanying Notes to Interim Financial Statements for the detailed discussion of the accounting policies and methods of computation (Note 2).

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

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

**Issuances, Repurchases and Repayments of Debt and Equity Securities.** On August 27, 2020, RCBC issued USD 300.0 million 6.5% PNC5 Additional Tier 1 securities, eligible as Additional Tier 1 Capital under Basel 3. The issuance was approved by the Bank's Board of Directors on June 29, 2020 and by the Monetary Board on August 13, 2020 per its letter dated August 17, 2020.

On July 27, 2020, RCBC listed its P16.6 billion, 2 year fixed rate bonds due July 2022 on the Philippine Dealing and Exchange Corporation (PDEX). The bonds carry a coupon of 3.25% per annum.

On April 7, 2020, RCBC listed its P7.05 billion, 2 year fixed rate bonds due April 2022 on the PDEX. The bonds carry a coupon of 4.848% per annum.

On January 27, 2020, the Board of Directors approved the increase in the Programme Size of the Bank's Medium Term Note Programme from USD 2.0 billion to USD 3.0 billion.

On January 22, 2020, the bank redeemed the USD 243.0 million or Php12.3 billion Senior Notes with coupon rate of 4.25%.

As permitted by PFRS 9, *Financial Instruments*, and Bangko Sentral ng Pilipinas (BSP) Circular 708, the Bank sold certain dollar-denominated bonds and peso government securities classified as investment securities at amortized cost with an aggregate carrying amount of P65.147 billion. The disposals resulted in a gain of P2.682 billion, which is included under Trading and securities gains-net in the statement of profit or loss. In addition, the Bank concluded that the sales did not result to changes in its business models for managing financial assets to collect contractual cash flows.

**Dividends Paid for Ordinary or Other Shares.** In its meeting held on September 1, 2020, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.0589 per share or a total of approximately P16.0 thousand payable to holders of Preferred Class shares and paid on September 24, 2020.

In its meeting held on May 26, 2020, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.556 per share or a total of approximately P1.076 billion payable to holders of Common Class shares and a total of approximately P149.0 thousand payable to holders of Preferred Class shares, both were paid on June 24, 2020.

In its meeting held on May 26, 2020, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.0808 per share or a total of approximately P22.0 thousand payable to holders of Preferred Class shares and paid on June 24, 2020.

In its meeting held on February 24, 2020, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.0993 per share or a total of approximately P27.0 thousand payable to holders of Preferred Class shares and paid on April 1, 2020.

In its meeting held on November 25, 2019, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.1051 per share or a total of approximately P28.0 thousand payable to holders of Preferred Class shares and paid on December 26, 2019.

In its meeting held on August 27, 2019, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.1121 per share or a total of approximately P30.0 thousand payable to holders of Preferred Class shares and paid on September 24, 2019.

In its meeting held on May 27, 2019, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.1166 per share or a total of approximately P31.0 thousand payable to holders of Preferred Class shares and paid on June 26, 2019.

In its meeting held on April 29, 2019, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.4460 per share or a total of approximately P863.0 million payable to holders of Common Class and a total of approximately P119.0 thousand payable to holders of Preferred Class shares, both were paid on May 29, 2019.

In its meeting held on February 26, 2019, the Board of Directors approved the declaration and payment of cash dividends amounting to P0.1205 per share or a total of approximately P32.0 thousand payable to holders of Preferred Class shares and paid on March 25, 2019.

The details of the cash dividend approvals and distributions from 2019 up to September 30, 2020 are as follows (amounts in Thousand Php except per share figures):

Date Declared	Dividend		Date Paid / Payable	Nature of Securities
	Per Share	Total Amount (in Thousand)		
26-Feb-19	P 0.1205	P 32	25-Mar-19	Convertible Preferred Stock
29-Apr-19	P 0.4460	P 863,290	29-May-19	Common Stock
29-Apr-19	P 0.4460	P 119	29-May-19	Convertible Preferred Stock
27-May-19	P 0.1166	P 31	26-Jun-19	Convertible Preferred Stock
27-Aug-19	P 0.1121	P 30	24-Sep-19	Convertible Preferred Stock
25-Nov-19	P 0.1051	P 28	26-Dec-19	Convertible Preferred Stock
24-Feb-20	P 0.0993	P 27	1-Apr-20	Convertible Preferred Stock
26-May-20	P 0.0808	P 22	24-Jun-20	Convertible Preferred Stock
26-May-20	P 0.5560	P 1,076,210	24-Jun-20	Common Stock
26-May-20	P 0.5560	P 149	24-Jun-20	Convertible Preferred Stock
01-Sep-20	P 0.0589	P 16	24-Sep-20	Convertible Preferred Stock

*Note: In 2015, the BSP, through the monetary board, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity. Further, prior BSP approval is no longer required except for certain cases.*

**Segment Information.** The following table presents revenues and expenses of the Group that are directly attributable to primary business segments and secondary information (by geographical locations) for the period ended September 30, 2020 (in millions).

<b>RESULTS OF OPERATIONS</b>						
<b>Primary</b>	<b>Retail Banking</b>	<b>Corporate Banking</b>	<b>SME Banking</b>	<b>Treasury / Trust</b>	<b>Others</b>	<b>Total</b>
Net Interest Income	13,804	8,230	2,957	814	(6,146)	<b>19,659</b>
Non-Interest Income	3,917	1,319	107	6,692	(2,340)	<b>9,695</b>
Total Income	17,720	9,548	3,065	7,506	(8,485)	<b>29,354</b>
Non-Interest Expense	13,499	2,791	1,301	866	5,136	<b>23,594</b>
Income (Loss) before Tax	4,221	6,758	1,763	6,639	(13,622)	<b>5,760</b>
Tax Expense	472	148	-	902	238	<b>1,759</b>
Net Income (Loss)	3,749	6,610	1,763	5,738	(13,859)	<b>4,001</b>
Total Assets	14,279	243,634	65,483	177,131	230,476	<b>731,003</b>
Total Liabilities	324,637	176,874	66,095	30,255	33,649	<b>631,510</b>
Depreciation and Amortization	820	131	15	40	1,166	<b>2,172</b>

<b>Secondary</b>	<b>Philippines</b>	<b>Asia and Europe</b>	<b>Total</b>
Total Income	37,962	9	<b>37,971</b>
Total Expense	33,956	14	<b>33,970</b>
Net Income(Loss)	4,006	(5)	<b>4,001</b>
Total Assets	730,887	116	<b>731,003</b>
Total Liabilities	631,506	4	<b>631,510</b>
Depreciation and Amortization	2,172	-	<b>2,172</b>

**Material Events Subsequent to the End of the Interim Period Not Reflected in the Financial Statements.**

See accompanying Notes to Interim Financial Statements for the detailed discussion on the material events subsequent to the end of the interim period not reflected in the financial statements (Note 14).

**Changes in Composition of the Issuer During the Interim Period and Material Contingencies and Any Other Events or Transactions.** There were no material changes in composition of the issuer during the interim period and material contingencies and any other events or transactions.

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



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Financial Performance

<b>RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES</b>				
	<b>Consolidated</b>		<b>Parent</b>	
	<b>Unaudited</b>	<b>Audited</b>	<b>Unaudited</b>	<b>Audited</b>
	<b>30-Sep-20</b>	<b>31-Dec-19</b>	<b>30-Sep-20</b>	<b>31-Dec-19</b>
Return on Average Assets (ROA)* <sup>1/</sup>	0.73%	0.80%	0.74%	0.81%
Return on Average Equity (ROE) <sup>*2/</sup>	6.19%	6.47%	6.20%	6.48%
BIS Capital Adequacy Ratio	15.82%	13.76%	15.41%	13.16%
CET 1 Ratio	12.42%	12.89%	11.93%	12.29%
Non-Performing Loans (NPL) Ratio <sup>3/</sup>	3.80%	2.15%	3.69%	1.96%
Non-Performing Assets (NPA) Ratio <sup>4/</sup>	3.49%	2.01%	3.40%	1.88%
Net Interest Margin (NIM)*	4.36%	4.03%	4.35%	4.02%
Cost-to-Income Ratio	55.77%	60.79%	55.31%	60.39%
Loans-to-Deposit Ratio <sup>5/</sup>	91.02%	95.30%	89.08%	93.30%
Current Ratio	0.60	0.47	0.56	0.45
Liquid Assets-to-Total Assets Ratio	0.27	0.20	0.27	0.21
Debt-to-Equity Ratio	6.35	8.26	6.26	8.18
Asset-to-Equity Ratio	7.35	9.26	7.26	9.18
Asset-to-Liability Ratio	1.16	1.12	1.16	1.12
Interest Rate Coverage Ratio	1.67	1.44	1.70	1.44
Earnings per share (EPS)* <sup>6/</sup>				
Basic and Diluted	PHP 2.70	PHP 2.78	PHP 2.70	PHP 2.78

\* September 30, 2020 ratios/ amounts were annualized

1/ - Average assets for the consolidated and parent ratios were computed based on the 9-month average of end of month balances of total assets. Unaudited net income for the 9-month period ended September 30, 2020 in the amount of P4.002 billion represented the consolidated and parent.

2/ - Average equity for the consolidated and parent ratios were, likewise, computed based on the 9-month average of end of month balances. Unaudited net income for the 9-month period ended September 30, 2020 in the amount of P4.002 billion represented the consolidated and parent.

3/ - Non-performing loans (NPLs) were net of total specific allowance for expected credit losses per BSP Circular 941 of 2017.

4/ - NPAs were net of total specific allowance for expected losses.

5/- Excluding Interbank Loans

6/ - Total weighted average number of issued and outstanding common shares (diluted) were 1,935,693,248 shares as of September 30, 2020 and 1,935,693,003 shares as of December 31, 2019.

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

<b>RIZAL MICROBANK</b>	<b>Unaudited</b>		<b>Audited</b>	
<b>In Php 000s</b>	<b>30-Sep-20</b>		<b>31-Dec-19</b>	
Net Income (Loss)	Php	(47,543)	Php	13,269
Return on Average Assets (ROA)*		-3.36%		0.79%
Return on Average Equity (ROE)*		-11.05%		2.23%
BIS Capital Adequacy Ratio (CAR)		31.16%		29.46%
Non-Performing Loans (NPL) Ratio		4.15%		6.76%
Non-Performing Assets (NPA) Ratio		3.82%		5.61%
Earnings (Loss) per Share (EPS)	Php	(5.62)	Php	1.18

<b>RCBC CAPITAL CORPORATION and Subsidiaries</b>	<b>Unaudited</b>		<b>Audited</b>	
<b>In Php 000s</b>	<b>30-Sep-20</b>		<b>31-Dec-19</b>	
Net Income (Loss)	Php	(31,512)	Php	277,001
Return on Average Assets (ROA)*		-0.90%		5.48%
Return on Average Equity (ROE)*		-1.20%		7.19%
BIS Capital Adequacy Ratio (CAR)		52.05%		56.35%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.04%		0.03%
Earnings (Loss) per Share (EPS)	Php	(0.36)	Php	2.34

<b>RCBC FOREX BROKERS CORPORATION</b>	<b>Unaudited</b>		<b>Audited</b>	
<b>In Php 000s</b>	<b>30-Sep-20</b>		<b>31-Dec-19</b>	
Net Income	Php	2,691	Php	15,588
Return on Average Assets (ROA)*		2.03%		7.83%
Return on Average Equity (ROE)*		2.12%		8.22%
Capital to Total Assets		95.49%		96.58%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.00%		0.00%
Loss per Share (EPS)**	Php	(40.83)	Php	(16.82)

\* September 30, 2020 ratios/ amounts were annualized

\*\* Net of 12% dividend on preferred shares of P12.00 per share

<b>RCBC INTERNATIONAL FINANCE, LTD. and Subsidiary</b>	<b>Unaudited</b>		<b>Audited</b>	
<b>In Php 000s</b>	<b>30-Sep-20</b>		<b>31-Dec-19</b>	
Net Income (Loss)	Php	(5,323)	Php	2,301
Return on Average Assets (ROA)*		-5.83%		1.85%
Return on Average Equity (ROE)*		-6.04%		1.92%
Capital to Total Assets		96.63%		97.56%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.00%		0.00%
Earnings (Loss) per Share (EPS)	Php	(2.84)	Php	0.92

RCBC TELEMONEY EUROPE S.P.A ** In Php 000s	Unaudited		Audited	
	30-Sep-20		31-Dec-19	
Net Income (Loss)	Php	0.00	Php	(13,630)
Return on Average Assets (ROA)*		0.00%		-49.17%
Return on Average Equity (ROE)*		0.00%		33.63%
Capital to Total Assets		-158.46%		-158.46%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.00%		0.00%
Earnings (Loss) per Share (EPS)	Php	0.00	Php	(136.30)

\*\* In the process of liquidation

RCBC-JPL HOLDING COMPANY, INC. (Formerly JP Laurel Bank, Inc.) In Php 000s	Unaudited		Audited	
	30-Sep-20		31-Dec-19	
Net Income (Loss)	Php	(1,486)	Php	2,007
Return on Average Assets (ROA)*		-1.21%		1.10%
Return on Average Equity (ROE)*		1.75%		-1.76%
Capital to Total Assets		-70.48%		-63.26%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.00%		0.00%
Earnings (Loss) per Share (EPS)	Php	(0.01)	Php	0.01

NIYOG PROPERTY HOLDINGS, INC. In Php 000s	Unaudited		Audited	
	30-Sep-20		31-Dec-19	
Net Income	Php	13,968	Php	51,382
Return on Average Assets (ROA)*		3.07%		8.36%
Return on Average Equity (ROE)*		3.22%		8.85%
Capital to Total Assets		95.24%		95.27%
Non-Performing Loans (NPL) Ratio		0.00%		0.00%
Non-Performing Assets (NPA) Ratio		0.00%		0.00%
Earnings per Share (EPS)	Php	13.38	Php	36.94

RCBC LEASING AND FINANCE CORP. and Subsidiary In Php 000s	Unaudited		Audited	
	30-Sep-20		31-Dec-19	
Net Income (Loss)	Php	(1,314)	Php	105,628
Return on Average Assets (ROA)*		-0.01%		1.04%
Return on Average Equity (ROE)*		-0.08%		5.47%
Capital to Total Assets		16.87%		20.50%
Non-Performing Loans (NPL) Ratio		12.36%		13.41%
Non-Performing Assets (NPA) Ratio		7.45%		9.70%
Earnings (Loss) per Share (EPS)	Php	(0.00)	Php	0.07

\* September 30, 2020 ratios/ amounts were annualized

## STATEMENT OF CONDITION: 30 September 2020 vs. 31 December 2019

RCBC's Total Assets were recorded at P731.003 billion.

Cash and other Cash Items decreased by 24.54% or P4.149 billion from P16.907 billion to P12.758 billion due to the decline in cash on hand and cash in ATMs as of period-end. The cash level in December was normally higher to service the expected increased volume of withdrawals during the long holiday.

Due from BSP increased by 4.79% or P4.175 billion from P87.255 billion to P91.430 billion attributable to the increase in level of Overnight Deposit as temporary placement of excess funds and Special Savings Account with BSP used as clearing account to service increased volume of online fund transfer transactions.

Due from Other Banks decreased by 25.81% or P4.856 billion from P18.818 billion to P13.962 billion, mainly due to decrease in foreign bank placements as a net result of servicing the matured obligations of the Bank.

Loans under reverse repurchase agreement increased by 136.92% or P7.898 billion from P5.768 billion to P13.666 billion due to higher placements with the BSP.

Total Investment Securities, representing 9.05% of Total Resources, decreased by 58.85% or P94.587 billion from P160.719 billion to P66.132 billion mainly due to the sale of Investment Securities at Amortized Cost and Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI). Investment Securities at Amortized Cost decreased by 78.73% or P79.461 billion from P100.926 billion to P21.465 billion; Financial Assets at FVOCI decreased by 26.24% or P14.235 billion from P54.245 billion to P40.010 billion. Financial Assets at Fair Value Through Profit or Loss also decreased by 16.07% or P891.637 million from P5.548 billion to P4.656 billion.

Loans and Receivables – net, grew by 12.51% or P56.182 billion from P449.219 billion to P505.401 billion attributable to the increase in level of Interbank Loans by 220.02% or P41.371 billion and recorded moderate increases in Corporate accounts by 4.81% or P10.987 billion, Consumer loans including credit cards portfolio by 3.49% or P4.592 billion and SME accounts by 3.40% or P2.482 billion. It represented 69.14% of Total Resources.

Investment in Associates – net, decreased by 26.98% or P119.773 million from P444.0 million to P324.227 million mainly attributable to the decrease in equity investment with Honda Cars Phils. as a result of loss incurred due to the closure of its local manufacturing plant.

Bank Premises, Furniture, Fixtures & Equipment – net, slightly decreased by 3.32% or P366.666 million from P11.059 billion to P10.692 billion.

Investment Properties– net, declined by 8.12% or P336.485 million from P4.142 billion to P3.806 billion as a result of higher provision and depreciation on real estate properties and auto.

Deferred Tax Assets increased by 9.40% or P201.113 million from P2.140 billion to P2.341 billion due to additional provision for impairment losses, net of write-off during the period.

Other Resources – net, slightly decreased by 1.10% or P116.404 million from P10.608 billion to P10.492 billion.

Deposit Liabilities were recorded at P496.831 billion and represented 67.97% of Total Resources. Demand deposits grew by 14.43% or P10.177 billion from P70.523 billion to P80.700 billion and accounted for 11.04% of Total Resources. Savings deposits grew by 7.52% or P13.479 billion from P179.247 billion to P192.726 billion and accounted for 26.36% of Total Resources. Time deposits reached P223.406 billion, which grew by 8.02% or P16.595 billion from P206.811 billion and accounted for 30.56% of Total Resources.

Bills Payable decreased by 85.36% or P86.735 billion from P101.606 billion to P14.871 billion primarily due to maturities of foreign borrowings amounting to P73.874 billion. The bank also prepaid a syndicated foreign borrowing of USD300.0 million or P14.917 billion as part of the bank's liquidity management.

Bonds Payable decreased by 6.08% or P5.882 billion from P96.814 billion to P90.932 billion attributable to the maturity of the USD 243.0 million or P12.304 billion Senior Notes in January 2020 and P15.0 billion Green Bonds in August 2020, net of the P7.054 billion and P16.616 billion Peso Bond issuances in April 2020 and July 2020, respectively.

Accrued Taxes, Interest and Other Expenses decreased by 5.13% or P318.191 million from P6.202 billion to P5.884 billion. The decrease was primarily due to lower accrual of interest expense on time deposits brought about by the decline in interest rates and lower volume of bills payable and other borrowings, net of the increase in accrual of income tax expense attributable to higher taxable income booked during the period.

Other Liabilities slightly decreased by 0.15% or P34.311 million from P23.026 billion to P22.992 billion.

Total Liabilities stood at P631.510 billion and represented 86.39% of Total Resources.

On August 27, 2020, the Bank issued foreign currency denominated Securities eligible as Additional Tier 1 Capital amounting to USD 300.0 million or P14.471 billion with an interest rate of 6.5% per annum payable semi-annually.

Other Comprehensive Income decreased by 34.31% or P752.376 million from P2.193 billion to P2.945 billion mainly due to the decline in Net Unrealized Gains on Financial Assets at FVOCI due to lower mark to market valuation versus end of 2019.

Retained Earnings increased by 8.76% or P2.915 billion from P33.275 billion to P36.190 billion mainly on account of the net income during the period, net of the P1.076 billion cash dividends paid on Common and Preferred Shares.

Total Capital Funds were recorded at P99.493 billion and accounted for 13.61% of Total Resources.

## INCOME STATEMENT: 30 September 2020 vs. 30 September 2019

Total interest income slightly increased by 0.78% or P220.002 million from P28.057 billion to P28.277 billion and accounted for 96.33% of total operating income. Interest income on loans and receivables went up by 7.88% or P1.898 billion from P24.086 billion to P25.984 billion and accounted 88.52% of total operating income. The increase was mainly due to the increase in average volume of Loans and Receivables and higher average yield. Interest income on investment securities decreased by 58.85% or P2.208 billion from P3.753 billion to P1.544 billion as a result of decline in average volume due to the sale of Securities at Amortized Costs and FVOCI securities; it accounted 5.26% of total operating income. Other interest income, on the other hand, increased by 242.60% or P530.182 million from P218.540 million to P748.722 million due to the increase in volume of Overnight and Term Deposits with the BSP.

Total interest expense went down by 26.18% or P3.056 billion from P11.674 billion to P8.618 billion and accounted for 29.36% of total operating income. Interest expense on deposit liabilities decreased by 35.95% or P2.463 billion from P6.851 billion to P4.388 billion primarily as a result of lower average costs; it represented 14.95% of total operating income. Interest expense on bills payable and other borrowings decreased by 12.30% or P593.028 million from P4.823 billion to P4.230 billion due to lower average costs and the decline in average volume year-on-year.

As a result, net interest income increased by 20.00% or P3.276 billion from P16.383 billion to P19.659 billion.

As part of the Bank's conservative stance on loan loss provisioning, the Bank booked total impairment losses of P7.222 billion, up by 38.56% or P2.010 billion from P5.212 billion in the same period last year to cover the expected increase in non-performing loans due to COVID-19. It represented 24.60% of total operating income.

Other operating income decreased by 14.56% or P1.652 billion from last year's P11.347 billion now at P9.695 billion. This accounted for 33.03% of total operating income, and is broken down as follows:

- Trading and securities gain – net, decreased by 13.51% or P915.036 million from P6.773 billion to P5.858 billion, largely attributable to lower realized trading gains from sale of investment securities and lower unrealized marked-to-market gains. It accounted 19.96% of total operating income;
- Service fees and commissions decreased by 16.02% or P461.476 million from P2.881 billion to P2.420 billion mainly due to lower fees on loans and trade commitments, credit card fees, securities and brokering fees from the Bank's investment banking subsidiary and fees on deposits. It represented 8.24% of total operating income;
- Trust fees slightly increased by 1.35% or P3.112 million from P231.317 million to P234.429 million;
- Foreign exchange gains – net, increased by 44.26% or P136.798 million from P309.102 million to P445.901 million. This was primarily due to higher foreign currency position profit;
- Miscellaneous income decreased by 36.07% or P415.803 million from P1.153 billion to P737.001 million largely due to lower dividend income and loss from Honda Cars Phils. due to closure of its local manufacturing plant.

Operating expenses, which accounted for 55.77% of total operating income, slightly increased by 0.56% or P90.549 million from P16.280 billion to P16.371 billion due to the following:

- Total Manpower costs decreased by 3.58% or P186.110 million from P5.203 billion to P5.017 billion due to the decrease in headcount, as a result of the merger with a subsidiary in 2019 and branch rationalization. It represented 17.09% of total operating income;

- Occupancy and equipment-related expenses decreased by 8.07% or P179.045 million from P2.219 billion to P2.040 billion due to lower rental on armored cars and repairs and maintenance. It represented 6.95% of total operating income;
- Taxes and licenses, which accounted for 8.37% of total operating income, slightly increased by 1.42% or P34.328 million from P2.424 billion to P2.458 billion mainly due to higher Documentary Stamp Tax largely attributable to the growth in peso time deposits;
- Depreciation and amortization was recorded at P2.172 billion, up by 21.59% or P385.597 million from P1.786 billion largely due to higher depreciation on ROPA, specifically real estate properties and auto and represents 7.40% of total operating income;
- Miscellaneous expenses slightly went up by 0.77% or P35.780 million to settle at P4.684 billion from P4.648 billion mainly due to the increase in regulatory fees as a result of the growth in deposit liabilities and COVID-19 related expenses, net of lower other volume-related expenses. It accounted for 15.96% of total operating income.

Tax expense slightly increased by 2.02% or P34.915 million from P1.724 billion to P1.759 billion mainly due to higher final tax on investment securities, net of lower deferred income tax during the period.

Net loss attributable to non-controlling interest settled at P961.6 thousand.

Overall, net income decreased by 11.30% or P510.062 million from P4.512 billion to P4.002 billion.

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

### **Commitments and Contingent Liabilities**

See accompanying Notes to FS for the detailed discussion of Commitments and Contingent Liabilities and the summary of contingencies and commitments arising from off-balance sheet items and their equivalent peso contractual amounts (Note 13).

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

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

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

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer **RIZAL COMMERCIAL BANKING CORPORATION**

Date **November 12, 2020**



**EUGENE S. ACEVEDO**  
President & CEO



**FLORENTINO M. MADONZA**  
FSVP, Head-Controllership Group



**MA. CHRISTINA P. ALVAREZ**  
FSVP, Head-Corporate Planning Group



**RIZAL COMMERCIAL BANKING CORPORATION**  
**Aging of Other Receivables**  
**As of September 30, 2020**  
**(Amounts in Millions of Philippine Pesos)**

	1 - 90 days	91 - 180 days	181 - 1 year	Over 1 year	Total	Allowance	Net
Accounts Receivable	2,107	86	435	615	3,243	1,048	2,195